★ TESTS AHEAD IN MARKET ★

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TO OUR FRIENDS AND SUBSCRIBERS

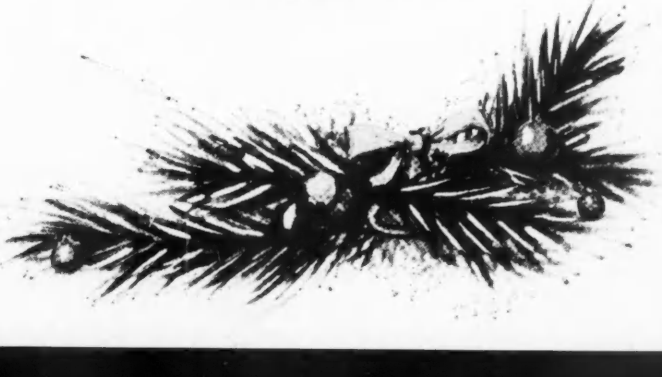
It is the love of little children that illuminates Christmas and renews our faith in the future. **They** are the future!

And under the mellowness of the Christmas Spirit we are inspired by this truth, which sets our thoughts winging in search of the answer—of the way to peace and a good life for those we cherish—and for our beloved country as well . . . as we painfully move into a new age, casting off the chains that bind us to old habits and outmoded ideas—to face with courage the challenge of tomorrow.

Guided by this inspiration we instinctively know, as the night follows the day—that with the confidence and determination born of faith—and a dash of common sense—we can overcome the obstacles that plague us as we move along uncharted paths into the new world. Experience has taught us that nothing is impossible. So let us remember those other days when circumstances seemed just as crucial and we were less prepared—that we triumphed over "insurmountable" obstacles—and won. We will win tomorrow, too!

To you, our Friends and Subscribers, whom we are happy to serve in the year ahead, with all our hearts we wish you well in your undertakings and a full measure of happiness and contentment.

C. G. Wyckoff
Publisher



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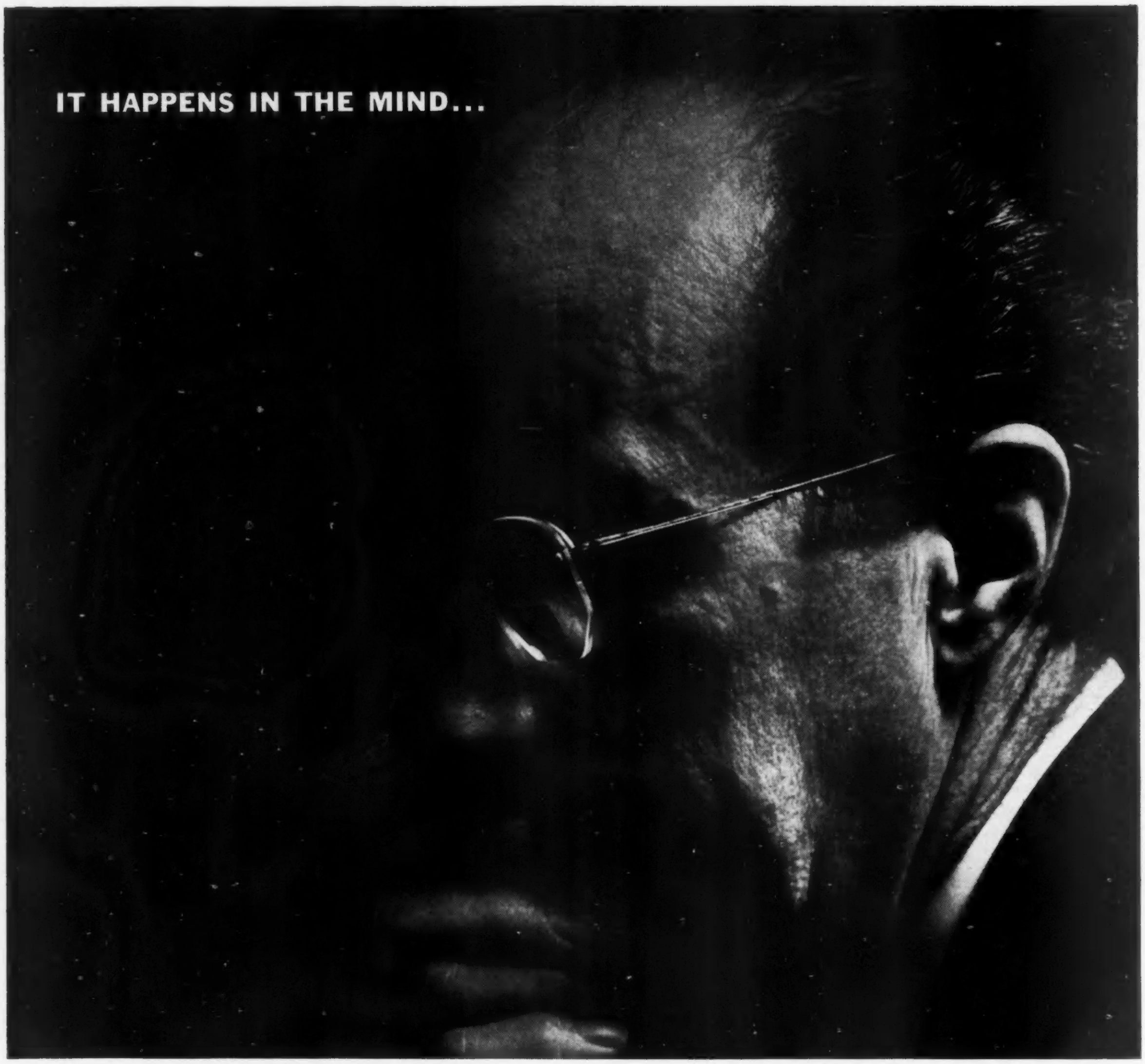

...It is essentially a thing of the mind for it works through concepts, symbols and relationships... it helps man to analyze and synthesize the complex phenomena of the universe and himself... it works in many ways to advance electrical communications:

IT IS CALLED MATHEMATICS

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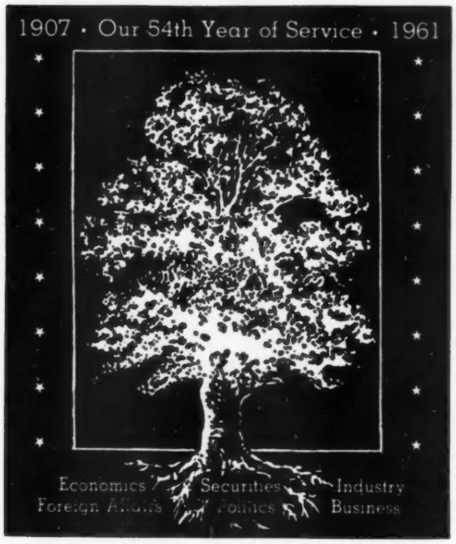
―THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

IN THE LAST FEW DAYS,—it has been made clear that President Kennedy's forte is speech-making, and he has come to believe it himself if we are to judge by the multitudious talks he has given around the country recently at both luncheon and dinner all in one day.

He won his election by oratory, and we hope that now, having had almost a year's experience in dealing with the heads of foreign states, he will fare equally as well in negotiations with our Allies, and be able to cope with the maneuvers to shift their problems and responsibilities to our shoulders.

Admittedly, this is a rough job, for these leaders have a sophistry of approach—the heritage of centuries—which requires rare talents in negotiation. It's well to remember they broke Woodrow Wilson's heart by their chicanery and double cross following World War I.

Thus far, action by President Kennedy has been weak, confused and ineffectual as compared with the quality of his oratory. His talks with Adenauer have not definitely settled any one of the key problems we face on the questions of Berlin and Nato. President de Gaulle, suspicious of both the British and the Russians, has refused to budge. And shortly now, our President will be meeting in Bermuda with Prime Minister Macmillan of Great Britain, and that is something to think about in the face of Mr. Kennedy's remarks regarding a proposed relationship with the Common Market.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

The pressure by Dean Acheson, former Secretary of State under Truman, whose leanings toward Britain are well known, indicates that to pull Britain's chestnuts out of the fire, we are going to be urged into an ill-considered and premature arrangement (amounting to a free-trade agreement), whereby the United States would lower its tariffs as the price for British entry into the Common Market! The threat to our industry is evident. For example, it has been estimated that if the tariff on autos were removed, a $1400 Volkswagon would cost $900.

Trade is the hot issue in Europe at the moment, for Britain is trying to enter the Common Market by straddling between a policy of Commonwealth preference on the one hand and the acceptance by the Inner Six of a *trade pact made in Britain,* that would call for completely making over the Common Market in line with British economic needs and political motives in Europe.

Should they succeed, it would mean enlarging the Inner Six to include the Outer Seven, which could easily ruin the economic entity contemplated by the Common Market countries and set back the goal of a United States of Europe, that would do so much to

solidify that area and put an end to the wars which have been fought back and forth over the terrain for centuries.

It has always been British policy to dominate the European scene — pitting one country against the other — as has been her custom in dealing with the continent. If successful this time, the Greater Europe to emerge would lack unity in which British decisions would always seek to pull the strings, and these tactics would produce an atmosphere that would be highly unfavorable as far as we are concerned. It would oblige us to deal with the individual countries separately and not as a single unit — as would be true under the status quo of the Common Market today — and open us to intrigue and harassment in the bargaining in which we are bound to get the short end of the stick. This is something we must think about seriously. There is too much at stake for us economically, financially and politically. Therefore, the prospect of a free trade deal under current circumstances must be carefully weighed, and in this issue we call attention to "What Needs To Be Done To Solve Our International Trade and Dollar Position" by Dr. Lloyd, which simply and clearly presents the story in a way that must appeal to the common sense of every reader of this publication. Thus far, the United States has not fared well in any situation where Britain has maneuvered us into doing her bidding. By numerous and high-powered approaches, she got us into two wars on the continent. And one has but to read Mr. George Kennan's "Russia and the West Under Lenin and Stalin" to note how we were out-maneuvered by chicanery of various kinds during the Siberian intervention at Archangel, which fouled up our relationship with Russia in the first place, and misled Woodrow Wilson right down the line. And was it the British who led Dean Acheson to believe that the Communist take-over in China was only an agrarian revolution as a part of their campaign to hold on to their commercial interests in Hong Kong and the Far East, and why they recognized Red China? And now, at this decisive point in our affairs at home and in crucial spots around the world, it is clear that we certainly cannot permit Britain to pull the strings.

I hope that Mr. Kennedy will act like Churchill instead, as the wits are saying, "Talk like Churchill and act like Chamberlain."

As I See It!

By Malcolm Stewart

A SHAKE-UP COMES TO THE STATE DEPARTMENT — FOR BETTER — NOT WORSE

An appraisal of the men and the jobs . . .

IT took President Kennedy ten months to discover that you cannot conduct effective foreign policy with two state departments — one of them the traditional organization and the other consisting of a free-wheeling group of academic experts in the White House.

The President's recent personnel shake-up was a long step in the right direction. It should make for more effective coordination of foreign policy operations if the President insists on adherence to the chain of responsibility and permits no more short-circuiting of Secretary of State Dean Rusk.

Rusk isn't the brainiest Secretary of State we've ever had and he is something less than dynamic . . . but he's a tough-minded and adequate diplomatic technician if given a chance to work in the traditional role without being sabotaged.

Removal from the White House of two special advisers on foreign affairs, Professor Walt W. Rostow and 29-year-old Richard Goodwin, should be helpful. They have been placed in the State Department subject to Rusk's discipline and control. This corrects an absurd situation in which advisers with no responsibility or administrative

experience were able to compete with cabinet officers for the President's ear.

The elimination of Chester Bowles, the darling of the liberal extremists, as Undersecretary of State should help considerably in enabling the Department to operate with less friction. (There is no truth in the rumor that the President was annoyed when Bowles called him on the phone and by mistake said, "Mr. Dillon, this is Chester calling"—at least so the punsters say.)

Bowles, who always thought he should have been given Rusk's job, had a bad tendency to take his ideas directly to Kennedy without going through his superior. His removal had nothing much to do with basic policy, or "liberalism" versus "conservatism". It was simply an urgent operational necessity if Rusk were to be able to run his Department efficiently.

Bowles' new job as Special Representative of the President in Latin America, Asia and Africa was created to placate his political supporters and prevent any erosion of Democratic Party strength. In the new job the articulate Mr. Bowles will be a sort of glorified travelling salesman for American foreign policy in areas where he enjoys a certain popularity.

This time Kennedy didn't make the mistake he did last Summer when he first tried to ease Bowles out, after former Secretary of State Dean Acheson advised the President that Bowles was the monkey wrench in the Departmental machinery. At that time, the President leaked word of his intentions and gave Bowles' supporters time to build a publicity backfire which forced Kennedy to postpone the contemplated action.

Substitutions in the Backfield

George Ball, who moved into Bowles job, has won some acclaim as an economic expert and is expected to devote a great deal of his time to foreign trade matters. He will be in the thick of the Administration's battle next year to get Congress to authorize wide Presidential power in negotiating tariffs with the European Common Market and other countries. Ball, a onetime law partner of Adlai Stevenson, appears to operate politically somewhat to the right of his erstwhile office mate.

George C. McGhee, one of Rusk's friends who was brought in last January to be State Department Counselor and Chief of the Policy Planning Staff, turned out to be in the wrong job. He always has been more of an action man than an idea man.

His new job as Undersecretary for Political Affairs offers more scope for his talents as an operator.

Selection of W. Averell Harriman as Assistant Secretary of State for Far Eastern Affairs had been in the works for some time before it was announced along with the other changes. As roving Ambassador for Kennedy — a job now absorbed presumably in Bowles' new duties — Harriman had dealt principally with negotiations on Southeast Asian affairs. The surprising thing to power-conscious Washingtonians was that the 70-year-old former New York Governor and Presidential aspirant would take a cut in rank. But intimates said he was getting the job he wanted most at this time and so far has appeared happy in it. However, Harriman, even as Bowles, has always had a habit of communicating directly with the President when the spirit moved him. It remains to be seen whether Rusk can control his operations.

Rostow, in taking over McGhee's old post as Chairman of the Policy Planning Council, can give full rein to his penchant for tossing off ideas at a rapid rate. However, in his new post, if Kennedy makes the boys play by the rules, Rostow's ideas will not go undiluted into the Presidential ear. They will be tossed into the pot at the State Department to be tested against the opinions of the experienced professionals in the field.

Nobody has ever clearly explained just how "whiz kid" Richard Goodwin became a Presidential expert on Latin American affairs. He didn't speak Spanish and had never been south of Mexico. Moving him from the White House over to State Department as Deputy Assistant Secretary for Latin America probably places him closer to his true ability level.

In Sum

All in all, Kennedy's changes appear to show that he has learned that there is much to commend the traditional arrangement of the Executive Branch of the government, with calls for the Secretary of State to be the principal adviser on Foreign Policy and holds him strictly accountable for his opinions and actions, as well as effective implementation of Presidential decisions.

Rusk himself is known to feel that the shake-up gives him a much better chance to work effectively. If this is true, results should begin to appear before too long. END

Market Tests Ahead

Nearing the end of the year, over-all market movement has remained limited for some time. The short-term tendency should be upward on a seasonal basis, but whether the widely expected year-end "play" will amount to much remains to be seen. If disappointing, confidence in later possibilities could be impaired. Time is not on the side of dynamic sustained advance at this stage. In our view, need for caution is increasing.

By A. T. MILLER

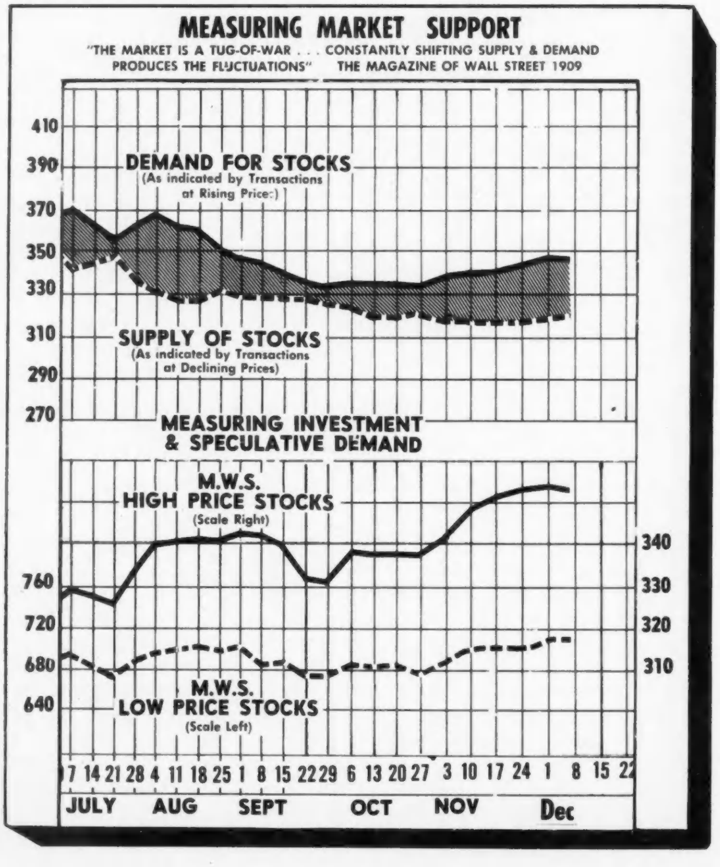
THE market appears to have everything in its favor — with the exception of good stocks at attractive prices. The trends of business activity and earning power of leading corporations are plainly upward; and at this time, we would hesitate to question the consensus that the near-term outlook is favorable, probably through the 1962 first half. However, the trouble is that this prospect has been already so largely discounted.

This kind of situation is not new and experienced investors should not be puzzled by it. Probably largely as a result of the greatly increased influence of institutional funds — managed by sophisticated professionals — the tendency of the modern market has increasingly been to reach peaks or troughs long before business in general does so.

The declines in stock prices end well ahead of the business recession low points. The sharpest market advances are seen while business is still depressed and during the early phases of economic revival. By the time industrial activity has reached a new peak and virtually all of the business news is good there is not a great deal left for the market to anticipate.

Slow-Down After Strong Revival

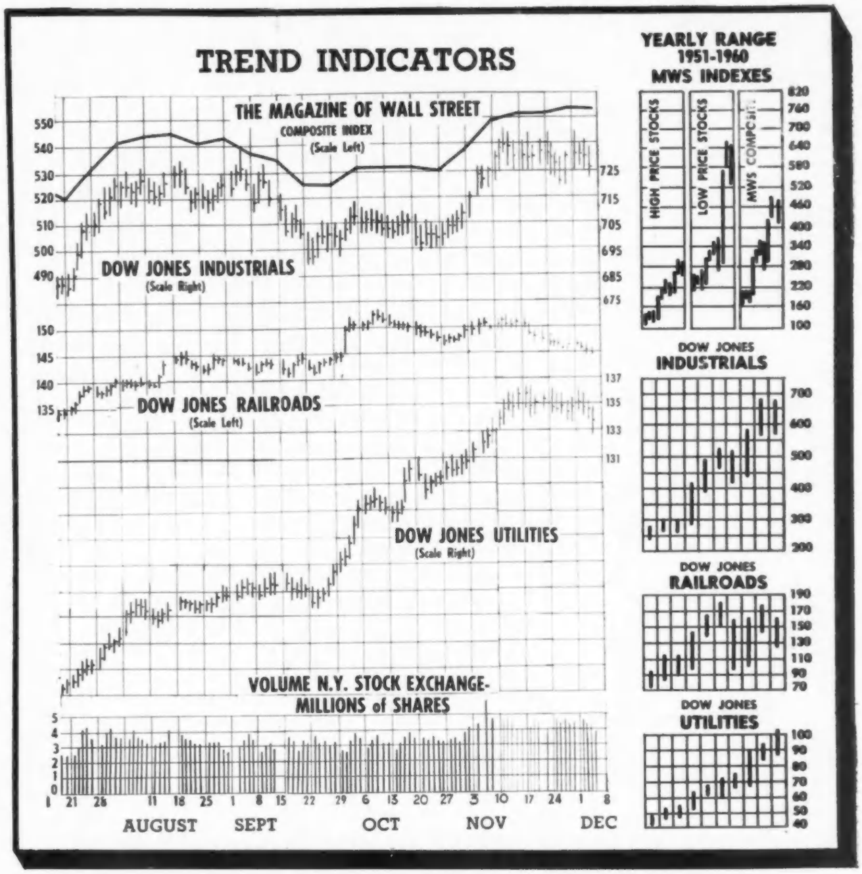
It is true also that relatively rapid business revival, usually bringing a sharp rebound in corporate profits, is followed in no great time by a slow-down — and sophisticated investors know this. We have pointed out before that a dynamic market rise for 24 months to September, 1955, was followed by a trading range of about 10% in the industrial average for 22 months prior to the wide 1957 market break.



It is worth adding that the greater part of the business advance from the 1954 recession low point had also been seen by September, 1955, when the production index stood at 98.4. The well-remembered triple tops around 520-521 for the industrial average came in April and August of 1956 and in July, 1957. For those months the levels of the production index were, respectively, 99.6, 99.0 and 101.4. Following a spurt from the 1954 quarterly low point of $6.15 a share, earnings on the industrial average reached $9.71 a share by the 1955 fourth quarter, which was not exceeded during the rest of the 1954-1957 business expansion cycle.

The revival from the 1957-1958 recession differed from the record cited in detail, but not in substance. Much the greater part of the rise in industrial production had been seen by the early summer of 1959, and of the market rise by August, 1959. Thanks to major inventory accumulation prior to that year's long steel strike, earnings on the Dow industrials reached a peak of $11.01 a share in the 1959 second quarter, compared with a low of $5.78 a share in the 1958 first quarter. The record level mentioned has not since been ap-

proached. Whether it will be equalled or exceeded by the 1962 second quarter — with a steel strike threat again looming up — is problematical.



The Current Picture

Before attempting to apply the lessons of 1954-1957 and 1958-1959 experience to formulation of what we think is sensible investment policy today, a few comments on the current position are in order. The industrial average gave up a little ground in the past fortnight, but closed last week on an up-beat which raised hopes for a year-end rally. However, it did the same thing two weeks earlier — and nothing happened. Utilities and rails also receded in the past fortnight.

Among individual stocks, more declined last week than advanced, and the total of new highs was the smallest in some weeks. Despite a firm tone in last week's final session, it brought the fewest new highs of any day in the week. The favorable demand-supply spread shown by our Market Support Measures narrowed a little during the fortnight.

Following wide advances, most of the favored consumer-goods stocks look high and tired — and are obviously meeting less institutional demand at present. Many of the professional "stock pickers" are trying to talk up cyclical stocks — with little success to date. Note that in an up-day last Friday, with the Dow industrials less than 1% under the November top, not a single new high was recorded in any of the following cyclical groups: agricultural implements, aluminum, construction, copper, metal fabricating, railroads, steels, tires and paper.

Note also that in "special-study" recommendations—now centered increasingly on unlisted stocks or secondary listed issues—the brokerage-house analysts are largely "scraping the bottom of the barrel."

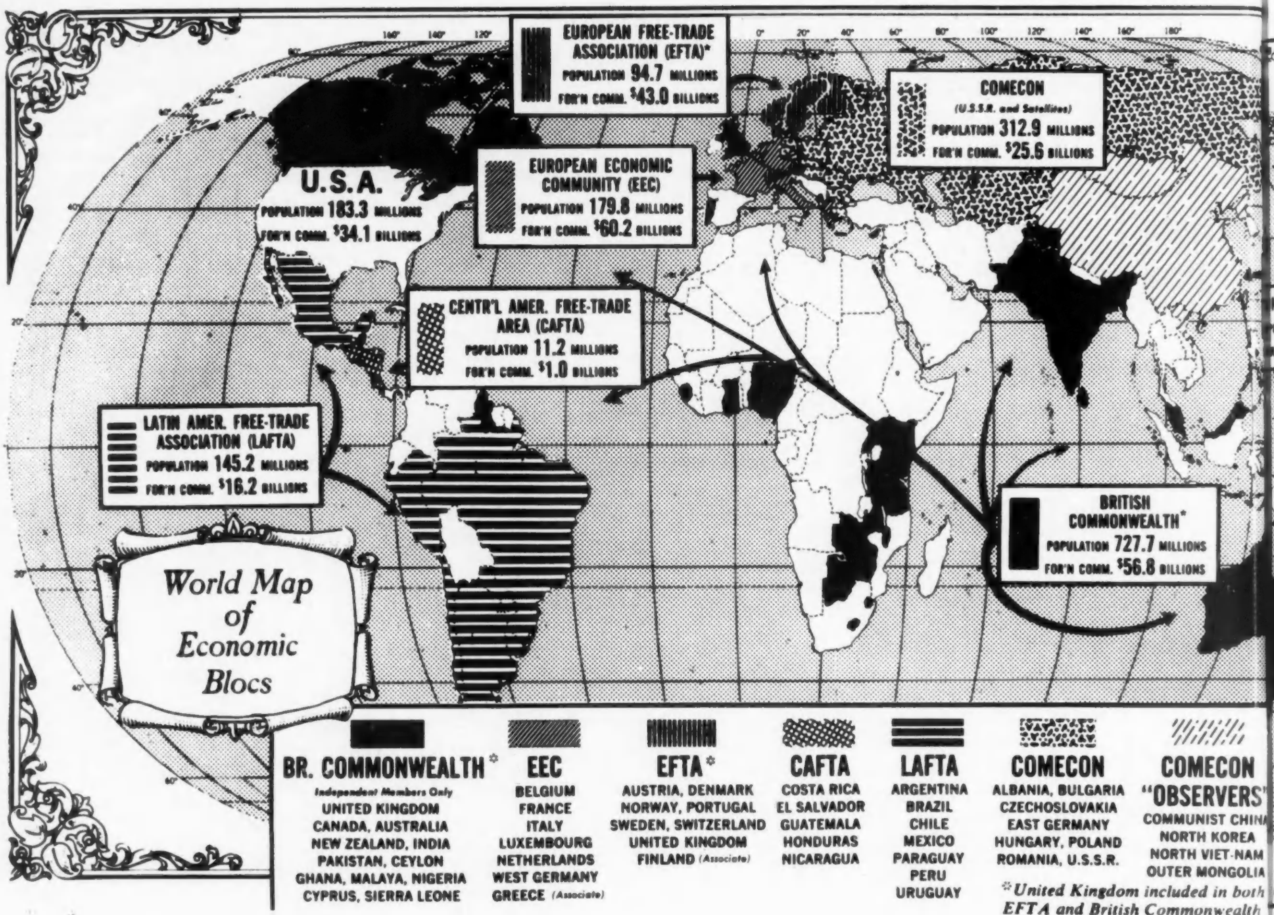
Following a 140-point rise (about 25%) to mid-May, the industrial average has since been held to a range of around 8%, with the November high about 4% above the best May level and little over 1% above the September 7 intermediate high. This loss of vigor can no longer be blamed on either the international situation or business uncertainty. The Russian "peace offensive" — dictated temporarily by Communist troubles and propanda needs — implies no military showdown over Berlin any time soon. The late-summer lull in industrial revival is over and all indications point to strong gains in coming months.

What, then, has been the matter with the market? Some who are beating the drums for further advance say consolidation of the October-November rise was needed. Four weeks of consolidation to date to correct a three-week bulge which, at the 734 level, added less than 8 points net to the advance that had been scored by early September? We do not agree.

The Real Reason

Probably the main reason is that too many "good" stocks are over-priced, too many others lacking in appeal with respect to quality or prospects or both. The breath-factor indicators have been deteriorating, as was so in the late months of 1959. There is talk of a year-end rise and another leg of the bull market ahead. The same talk was rife near the 1959 year end — after which we got about a ten-month 17% decline in the industrial average.

Of course, the latter was due to business recession *and* vulnerable stock prices, whereas we do not appear to be near a business slow-down now. But the economy could be in for later trouble if steel inventory accumulation becomes a big medium-term factor. This will bear watching. So also will near-term market behavior as a test of the vigor of investment demand. While a new high is possible for the industrial list, it could be by no wide margin if it comes. With the industrial average now less than 7% above the 1960 high attained nearly two years ago, where is the run-away market? We still say: keep your feet on the ground—**Monday, Dec. 11**



What Needs to be done to Solve

OUR INTERNATIONAL TRADE AND DOLLAR POSITION

By DR. LEWIS E. LLOYD

NOTE—We have yet to see such a clear and simple explanation of the trade and dollar position of the United States in relation to the rest of the world as given in this article—and we are delighted to be able to present it to our readers because of the great need for understanding this critical situation, both as businessmen and investors.

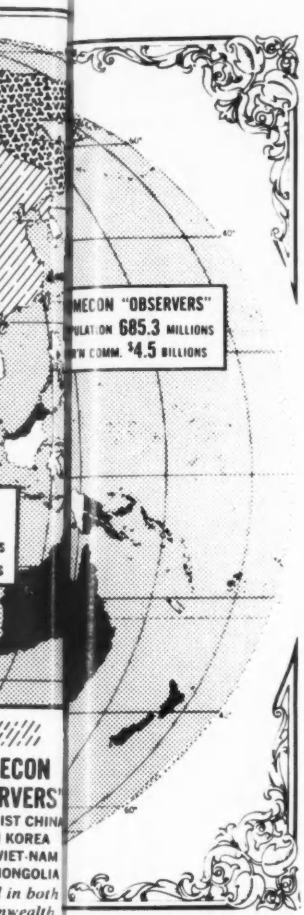
In this illuminating feature, Dr. Lloyd explains the complex balance of payments problem in easily understood terms—shows what has caused it—presents a forthright case telling why he rejects the low tariff policies advocated both by the government and most theoretical economists—what steps he believes should be taken until various distortions in the system of free world trade can be removed—and what solutions must be considered by President Kennedy.

This very thoughtful re-examination helps us to clearly see both sides of the situation and makes a real contribution to clear thinking on these vital economic issues.

—EDITOR

A YEAR ago we faced a temporary gold crisis when gold which is pegged at $35 per ounce sold at a premium for several weeks on the London market and briefly reached a high of $41 per ounce. Since then the press has given considerable attention to our balance-of-payments deficit. What is not generally recognized, however, is that this problem is imbedded in the fundamental economics of trade.

Foreign trade consists of the exchange of economic goods and services between nations. Money becomes involved in two ways: as a standard for evaluating diverse products and as a medium of



exchange. Simply stated, the equation of exchange takes the form:

GOODS ⇄ MONEY ⇄ GOODS

It is important to note that the economic exchange process is not complete with merely exchanging goods for money but only after the second step of exchanging the money for another economic good.

Balance of Payments Defined

Balance of payments is the term applied to the accounting of the exchange af goods, services and capital transfers between a given country and other countries. **If the sum of all these exchanges does not balance, then there will be a shift of the exchange medium, money, into or out of the country.**

The balance of payments is made up of the net of trade, the net on tourism, the net on services such as shipping charges, insurance, etc., the net of capital flow for investment, interest payments and dividends, and the net of unilateral transfers (foreign aid and personal gifts). *In recent years the dollars which foreigners have obtained from our imports, from tourists, capital transfers, and foreign aid have far exceed the total dollars which have returned; and so we have had a substantial negative balance of payment — an outflow of dollars.*

This large and growing outflow of dollars which have not come home indicates that we are noncompetitive. *If our goods were not overpriced relative to world markets,* most of these dollars would have been used to buy from us.

How has it come about that the United States, the greatest industrial nation in the world, has become a high cost producer? The answer to this question requires an examination of the changing economic and political situation in the world.

Heightened Foreign Competition; Reduced Tariff Barriers

► In recent years we have seen a breakdown in the colonial system which for two centuries had integrated the underdeveloped and industrial nations into an economic unit. ► At the same time we find a resurgence in the industrial nations. ► Europe and Japan have replaced their war-torn plants with new, modern, efficient ones. ► During World War II they were unable to continue to supply the export markets which they had built up around the world. ► We filled the gap. ► Now they want their export markets back whereas we are determined to hold onto them and even to expand our exports.

In the past two decades while these sweeping changes were taking place, we have rapidly reduced our tariff rates. They are now more than 75% below 1930 levels and average only a little more than 10% on all dutiable items. These reductions, which have been made under the Trade Agreements Act, will be extended under Administration proposals, which call for further across-the-board tariff cuts in another major step toward complete free trade.

According to prevailing theory, free trade is supposed to maximize economic efficiency through extension of the principle of the division of labor.

Tariff Reduction Theory Based on Unrealistic Assumptions

This is a fine theory and sounds very plausible in the classroom. Unfortunately, few proponents of free trade realize that its application will advance economic efficiency ***only*** if all the assumptions upon which it is based are met. The necessary conditions involve a free market in essentially all the contacts and relations between nations.

For example, there should be:

1. No embargo or tax on raw material exports;
2. No world cartels or commodity agreements;
3. No immigration restrictions;
4. Similar tax burdens and laws governing business in all countries;
5. A completely free market in currency exchange;
6. No overriding defense requirements; and
7. Finally, no government subsidies for the economies of the trading partners.

No one of these conditions is fully met even in the free world today, and the one single factor of exchange controls and pegged rates is sufficient to bring consequences not intended by the free trade theory.

► By way of example: when six nations in Europe decided to form the European Economic Community (the Common Market), they found that they could not accept free trade without taking account of the assumptions underlying the theory.

► As a consequence, the Rome Treaty proposes the free and unrestricted movement of workers from country to country, and the equalization of indirect costs to producers so that fringe benefits, social taxes and the like will not make a producer noncompetitive in one country as compared to others in the Market.

► They also had to recognize exchange problems. The only practicable answer was "gradualism," for too rapid an adjustment would have brought undesirable and unnecessary hardships— unemployment and economic dislocation.

Importance of Stability

Another matter important in regulating world trade is stability. **There is considerable doubt that, given a free choice, people everywhere would choose maximum efficiency, because the highest division of labor, to get maximum efficiency, also maximizes instability and risk.** Communities, companies and even individuals find it desirable to spread the risk, to diversify. The maximum international division of labor would not necesarily be the most desirable state in the economic relationships between nations.

Stability is becoming an increasingly prominent objective for our own American society, although maximum stability would be stagnation. We need constructive change at such a rate that it will not cause undue hardship. The adjustments that are required in foreign trade relations are no exception;

if we force too rapid a change, we will pay the penalty of severe economic and social stress.

What Inflation Started . . .

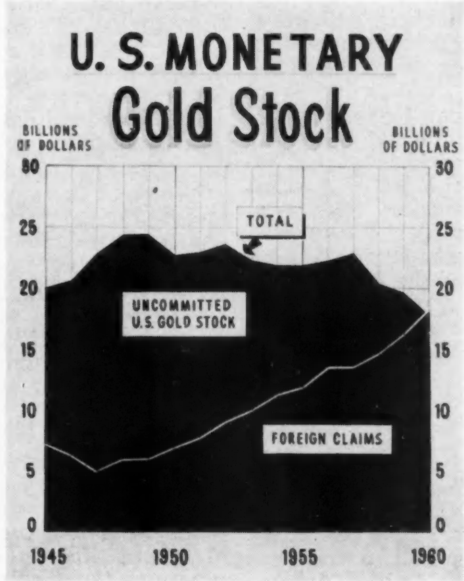
► During World War II we chose to pay our war costs in large part with inflation. The government printed bonds, many of which went to the Federal Reserve banks, where in turn they became the base for an enormous credit expansion. Since 1940 we have poured about $90 billions of fiat money into the purchase media stream. As a result of this monetary inflation, we now have in circulation more than one worthless, fiat dollar for every good one.

Following the war there were essentially two dollars for every dollar's worth of goods, and so prices were bid up to more than twice prewar levels; today we have a 46¢ dollar. The price of labor, of course, went up along with the price of everything else, in fact, more than the price of finished goods. *Thus through the well-known process of inflation we built distortions and maladjustments into our economy, the chief one of which is our noncompetitive position in the world markets.*

. . . Improved Foreign Technology Has Aggravated

Prior to the war our mass production technology was so much more advanced than that of Europe and Japan that it easily supported our higher wage rates. Since the war this condition has changed. We financed the rapid rebuilding of their plants with some $80 billion of foreign aid. Teams of foreign industrialists were invited to visit our plants and learn American methods. They were apt at copying everything except our militant union movement. **As a result their productivity has increased enormously, while their wage rates have risen only moderately.**

As a consequence of these changes, the unit labor cost of foreign manufacturers is well below ours for many items; and so today foreigners who receive dollars prefer to spend them elsewhere where they can get more for their money.



How Gold Enters the Trade Picture

A look at the basic exchange equation will now show us the fundamental problem. Normally, foreigners would exchange goods and services for dollars, and then exchange those dollars for some of our goods.

GOLD

↑↓

GOODS ⇄ DOLLARS ⇄ GOODS

Gold is one of the goods which we offer them in exchange for their dollars. Now the price of gold has not been changed since 1934, when it was set at $35 an ounce. The price of other goods has essentially doubled on the average, due to our inflation. **As a consequence, gold is the cheapest commodity we offer in the world market today.** Thus, it is not surprising that foreigners prefer gold, or at least hold their dollar claims which are convertible into gold upon demand, rather than using dollars to buy our manufactured goods.

As a result of this imbalance in our foreign accounts, more than $6 billion in gold have been withdrawn, while the foreign short-term claims against the dollar have increased steadily to $22 billion at present, compared to our gold reserve of $17.3 billion (See Chart). Even after subtracting our claims against others, our commitments exceed our gold supply. Moreover, we have a statutory limit which requires us to maintain $12 billion in gold to support our own currency. Earlier this year the Administration proposed removing this legal requirement. *Such an action might postpone a crisis temporarily but would have several bad effects. It would be an open invitation for us to continue our unsound policies and make a fundamentally bad situation worse. It could hardly improve confidence in the dollar.* If the dollar is already distrusted when it is backed by 25% gold, how would his confidence be increased when this backing is removed altogether?

Obvious But Impracticable Solutions

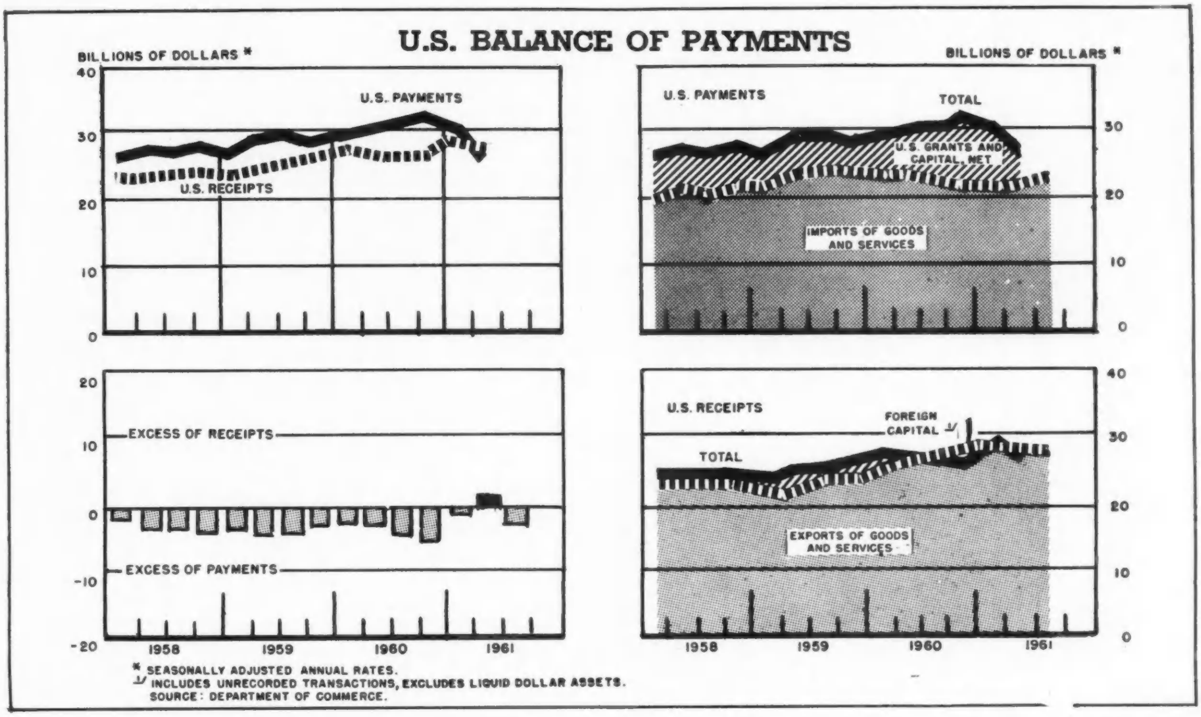
We are already in a very vulnerable position; and if at any time foreigners lose confidence in the dollar to the point where they begin to withdraw gold in sizable quantities, a real balance-of-payments crisis will arise. This could have very disagreeable repercussions on our economy here at home, even shaking our position as the leader in the Free World. Faced with this situation, what should be our course of action?

Basically and over the long run, the only real solution to our problem is for the United States producers to become competitive again in world markets. Unfortunately, this is easier said than done.

► **One remedy which has been proposed is that manufacturers reduce costs by increasing productivity in giant strides. We are urged to intensify research and automation.**

This suggestion sounds plausible, but has scant chance of solving our problem. First of all the Europeans, and the Japanese too, are also good at research; and their research costs are smaller than ours because their wage rates are lower. Moreover, in recent years they have been getting more than their share of real research breakthroughs.

Our foreign competitors are alert to new ideas and any research finding or productivity improvements which we make they will quickly apply. It is entirely unrealistic to expect that we can advance



while our foreign competitors stand still in the race for improved productivity.

► **A second way in which we might regain competitiveness would be for foreign wage rates to rise rapidly so that unit costs overseas would match our own.**

This would be an almost ideal solution. Foreign workers would realize rapid increases in purchasing, power, broadening their mass markets. This, however, is only daydreaming or at most shows promise only in the distant future. It is true that in recent years the percentage increase in wages in central Europe has been larger than in the United States. But this is of small comfort when the absolute gap remains so large. For example, if wages in Germany at 75¢ an hour should increase 10%, it would add only 7½¢ per hour to the labor cost. In the United States a 5% increase on a $3.00 wage means a 15¢ per hour increase. This is little remedy on a short-term basis.

► **Another alternative would be to have reductions in prices, both of labor and products, in this country.**

A very neat solution would be to have all wages and prices reduced by a constant fraction, say 25%, as of some particular morning. Obviously, with the monopoly power which resides in big labor, which year in and year out has won wage concessions in excess of productivity, we are not likely to obtain any wage rate reductions. So this method offers no possibility as a practical solution.

► *There is a way, however, in which the same purpose might be accomplished without affecting the wage and price relationships in this country. This would be to readjust the exchange rate between the dollar and other currencies.* Last summer a responsible Swiss financier estimated that the dollar would sell at more than 25% discount relative to the Swiss franc on a free market basis. Were this to happen, we would get a readjustment downward of our wage rate and prices *relative* to that of the other countries of the world. **In a free market, the exchange rate adjustment would continue until our products on the average had become competitive again in world markets and the total dollar outflow was roughly balanced by the inflow.**

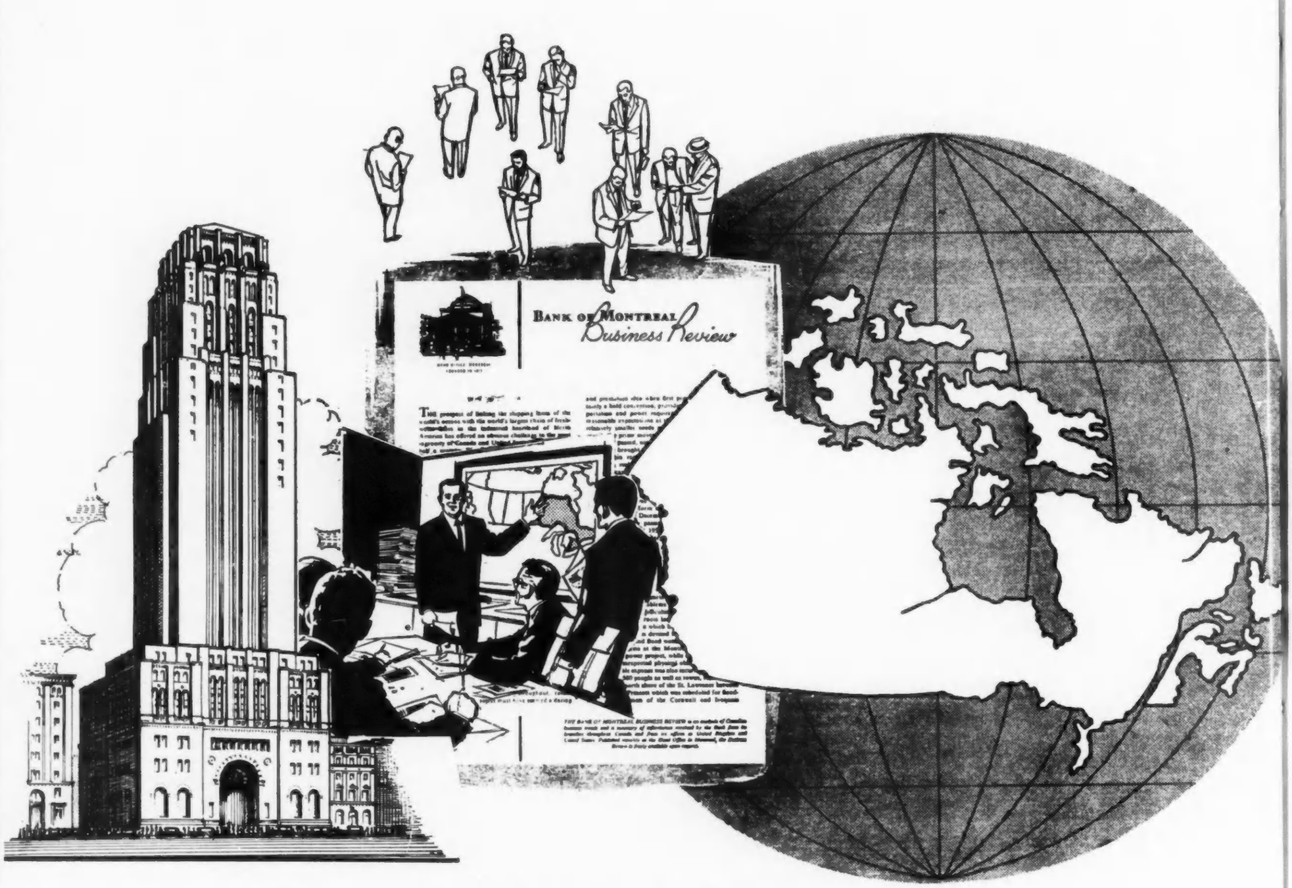
Weak Gold Position Blocks Natural Exchange Rate Adjustment

If this solution is so easy and sound, why hasn't it been done? It hasn't been done and isn't being contemplated because of the large short-term foreign claims against our gold.

If the dollar were trading at a substantial discount relative to gold in foreign markets, these dollars would be tendered as claims against our gold. **If we did not repudiate our promise to supply gold at $35 per ounce, we might well lose all of our gold supply and still be short of meeting our commitments.**

A primary factor in our negative balance of payments in recent years has been our foreign aid. The data on our foreign obligations indicate that we cannot and have not been able to finance this level of charity.

In the early days of the Marshall Plan, practically all of the aid dollars were spent in the United States and thereby at least supported jobs in this country. As industry was rebuilt overseas, less and less of the aid dollars have been spent here, until by 1959 only about 30% came back to support American jobs. If we are going to continue this massive international dole, the least we could do is to require that all of it be spent in the United States so that it will support jobs in *(Please turn to page 372)*



CHOOSING CANADIAN BANK STOCKS FOR DIVERSIFICATION

By W. E. GREENING

NOTE: In the 1920's a banking specialist told me that the Canadian banking system was patterned on the old Scottish plan of fiscal responsibility, and in time of crisis could staunchly support the Canadian economy. Requests from subscribers for investment suggestions in Canada led to this feature which interestingly shows that Alexander Hamilton used the same banking theories in his creation of the First Bank of the United States. The story follows . . . EDITOR

THE banking system of Canada differs in many important essentials from that of the United States. These differences are of historic origin and date back to the early years of the Nineteenth Century when the first banks were established in Eastern Canada. The merchants who set up these banks in such cities as Montreal and Toronto were greatly influenced by the American banking system of that era and particularly by the banking theories of Alexander Hamilton, as exemplified by his creation—the First Bank of the United States.

The earliest banks to be set up in Canada, such as the Bank of Montreal which was founded in 1818, imitated many features of the First Bank of the United States, notably the adoption of branch banking and the centralization of financial power in the hands of a few large banking institutions which would have control over currency and fiscal policies and which would be able to cling to conservative financial policies in the face of strong speculative pressure. From the beginning, almost all the early banks chartered in Central Canada, Nova Scotia and New Brunswick were organized along these lines, with branches and large financial reserves. **Banking in Canada has followed this Hamiltonian pattern ever since.**

Pertinent Data on "The Big Five" Canadian Banks

	Bank of Montreal October 31 1961	Bank of Montreal October 31 1960	Bank of Nova Scotia October 31 1961	Bank of Nova Scotia October 31 1960	Canadian Imperial Bank of Com. October 31 1961	Canadian Imperial Bank of Com. October 31 1960	Royal Bank of Canada May 31 1961	Royal Bank of Canada Nov. 30 1960	Toronto-Dominion Bank October/31 1961	Toronto-Dominion Bank October/31 1960
	(Millions †)									
Total Deposits	$3,646.6	$3,200.4	$2,120.1	$1,942.0	$4,220.2	$2,916.4[3]	$3,783.3	$3,884.1	$1,969.0	$1,972.3
Loans [1]	1,933.8	1,552.6	1,343.3	1,269.3	2,286.2	1,601.3[3]	2,094.3	1,914.0	1,154.7	1,148.6
Canadian Gov't Securities [2]	919.3	765.5	325.1	313.6	1,020.3	623.1[3]	891.6	836.8	431.8	'315.9
Total Shareholders' Funds	207.8	203.7	117.7	115.3	255.7	185.0[3]	294.2	291.7	112.9	85.0
Total Assets	3,949.6	3,485.4	2,268.9	2,125.3	4,584.0	3,155.2[3]	4,194.4	4,296.8	2,126.4	1,903.9
Earnings Per Share	2.39	2.34	2.92	2.95	2.54	2.33[3]	N.A.	2.94	2.76	2.77
Book Value Per Share	34.20	33.54	43.59	42.98	36.70	34.2[3]	44.01	43.99	37.65	35.44
Current Dividend Rate *	2.05	2.00	2.30	2.30	1.80	—	2.50	2.37	2.00	2.00
Price Range [4]	72½-59	59¼-47¾	83-66¾	77¼-56½	73-59[5]	56-46¾[5]	83½-72	80-63⅜	71¼-55⅛	59¼-48½
Recent Price	72		82		72		82		71	
Dividend Yield (%)	2.8%		2.8%		2.5%		3.0%		2.8%	

†—Canadian currency.
*—Based on latest dividend rate.
[1]—Includes mortgages and hypotecs insured under Nat. Housing Act of 1954.
[2]—Includes provincial government securities, (during and guaranteed).
[3]—Balance sheet of Canadian Bank of Commerce. Company merged with Imperial Bank of Canada in 1961 on basis of 1 sh. of new stock for each share Canadian Bank of Commerce and 7 sh. new for 6 shares Imperial Bank.
[4]—To November 1961.
[5]—Prices prior to merger, 6/2/61, are for Canadian Bank of Commerce.

Banking Pattern Abandoned in the U. S. Continued in Canada

The anti-monopoly movement which ended in the destruction of the Second Bank of the United States during the presidency of Andrew Jackson in the Eighteen Thirties, and which resulted in the eventual triumph of the unitary banking system in the United States, never had much support in Canada. Consequently the unitary system of banking failed to take root there. From the very beginning, banking facilities in the British provinces in North America (and, after Confederation in 1867, in the Dominion of Canada) were concentrated in the hands of a particularly small number of banks with many branches. Banks of this type which arose in the Nineteenth Century in the Atlantic provinces and in Central Canada gradually extended their operations on a national scale. For example, the **Bank of Nova Scotia** was founded in 1832 in Halifax, and later extended its operations westward into Central Canada; eventually it transferred its head office from Halifax to Toronto, where it still remains today. In a similar manner, the **Royal Bank,** started in Montreal in 1857, gradually penetrated eastward into the Maritime provinces and westward into Ontario. During this process, these large institutions also absorbed many smaller banks in such cities as Quebec City and Hamilton and Ottawa.

This process was greatly aided by banking legislation passed by the new Government of Canada after Confederation in 1867. **Unlike the United States, banking in Canada is a federal and not a provincial matter.**

The launching of a new bank is a much more difficult process in Canada than in the United States. A charter can only be obtained through a passage of a bill in the Canadian Parliament in Ottawa, and large capital reserves are required. The provision of Canadian banking legislation that this charter must be renewed every ten years has given the Federal Government the power of close supervision of banking operations in every region of the country. In practice the governments which have been in power in Ottawa since 1867 have rarely looked with a hostile eye on the concentration of financial power in the hands of a few large banks.

Combining Stability and Flexibility

This system has served Canada well during the past century by offering a combination of stability and flexibility not always found in the banking system of the United States. The branch banking system has prevented the failures which have been such a prominent feature of certain periods in the history of banking in the United States. **On the one hand not a single major bank failure in Canada has occurred since the year 1923, and in March 1933, when every bank in the United States closed its doors, the Canadian banking system was completely unaffected by this crisis across the border. On the other, these large banks with their head offices in Montreal and Toronto, with the aid of the branch system, have been able to expand their facilities and their business in harmony with the economic growth of Canada.**

In the period after 1890, for example, when Canada began to expand westwards from the Great Lakes across the prairies and the Rockies to the Pacific Coast, these Eastern Canadian banks such as the Royal Bank and the Bank of Nova Scotia established branches in the new provinces of Manitoba, Saskatchewan and Alberta to serve the fast-growing rural population there. And they gradually became national institutions in the true sense of the term. They were able to close down unprofitable branches in times of depression like the early Nineteen Thirties, and opened new ones in boom periods like the era after 1945. Thus, they have adapted their structure to economic developments in Canada

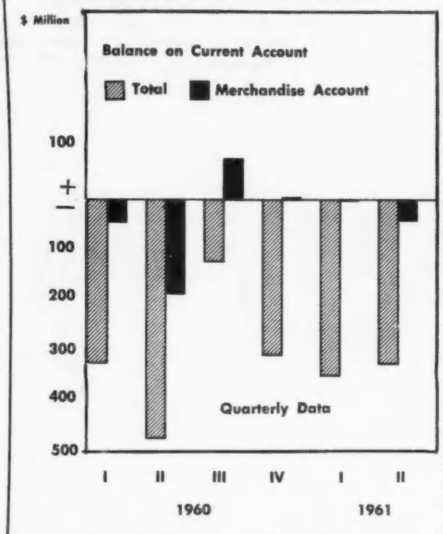
in a way which would have been impossible under the American system of banking.

Complete control of the Federal Government over the banking system has been accomplished by the establishment of the Bank of Canada—the Canadian equivalent of the Federal Reserve Bank—in the Nineteen Thirties.

Broad Geographical Reach

As a result of this process of amalgamation, banking in Canada today is largely centered in the hands of a few very large institutions with their head offices in Montreal and Toronto and with hundreds of branches in every one of the ten provinces of Canada, from Newfoundland to British Columbia. Branches may be found in great cities like Montreal and in remote pioneer mining communities in the Far North and the Yukon. During the past half century, most of these banks have also extended operations into the foreign field, including the British Islands of the Caribbean such as Jamaica, Trinidad and Barbados; the Dominican Republic, Puerto Rico, Mexico, and several of the republics of Central and South America. Both the Royal Bank and the Bank of Nova Scotia for many years did a considerable business in Cuba, but in 1960 their properties on this island were taken over by the Castro Government.

CANADA'S BALANCE of INTERNATIONAL PAYMENTS



Canadian Banks in Perspective

Today the **Royal Bank**, the **Bank of Montreal**, the **Bank of Nova Scotia**, the **Canadian Imperial Bank of Commerce** and the **Toronto-Dominion Bank** rank among the major banking institutions on the North American continent. Several years ago, the Royal Bank ranked fourth, being surpassed in size only by the Bank of America, the Chase, and the National City Bank of New York City. The Bank of Montreal was eighth in size among all banks of North America and the Canadian Bank of Commerce tenth.

The growth of the Canadian banking system during the past fifteen years has fully kept pace with the remarkable economic and industrial development of Canada during this period. The number of bank offices in Canada increased from 3219 in 1945 to 4879 in 1959, and today is well over five thousand. These are almost all branches of the big national banks in Toronto and Montreal just named. Canada today has a greater concentration of banking facilities per capita than any other modern nation; among the total population of eighteen millions, there is one bank branch for every 3500 Canadians.

The Royal Bank, headquartered in Montreal, and which has paid dividends every year continuously since 1870, now has 980 branches in Canada, the islands of the Caribbean and in several Latin American republics.

The Bank of Nova Scotia, with its head office in Toronto, has paid a dividend continuously every year since 1883, and has almost 600 branches in Canada and in some of the Caribbean islands.

The Canadian Imperial Bank of Commerce, the result of a recent merger between two large banks in Toronto—the Imperial Bank and the Bank of Commerce—operates a total of 1270 branches in Canada and the Caribbean region.

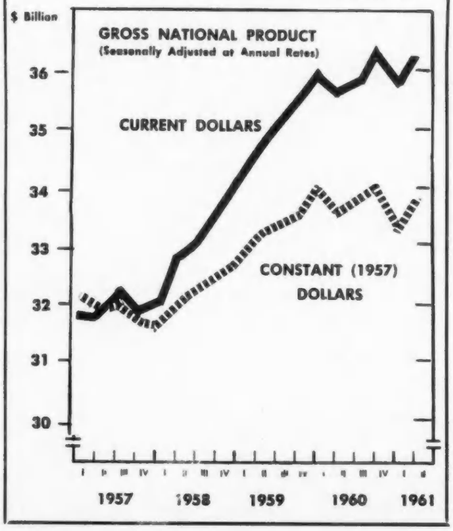
The **Toronto-Dominion Bank,** also the result of a merger between two Toronto banks, has about 570 branches, mostly in Canada.

The cash resources of these institutions are impressive even by American standards. In 1961, the Bank of Montreal had resources of $3,949 millions and the Canadian Imperial almost $4,584 millions.

Concentration of Banking Activity Has Not Stifled Competition

Although banking facilities in Canada are concentrated in the hands of a smaller number of banking institutions, there is by no means a state of monopoly there. All remaining banks are competing very vigorously for new business from coast to coast, and the great growth of this business, which reflects favorable economic conditions in Canada during the past few years, is shown by the marked increase in their earnings.

COURSE OF THE CANADIAN ECONOMY



Earnings of the Royal Bank increased from $22.9 million in 1955 to $48.1 million in 1960, more than doubling in five years. During the same period earnings of the Bank of Montreal grew from $16.8 million to $31.6 million, and those of the Bank of Nova Scotia grew from $7.7 million to $14.7 million in 1960.

And this highly favorable situation has also been reflected both in earnings per share and

(Please turn to page 371)

THE EIGHTY-SEVENTH CONGRESS
An Appraisal and Forecast

By McLELLAN SMITH

THE record of its Budget actions marks the First Session of the 87th Congress as the freest spending Session in the Nation's peacetime or cold war history—an inescapable conclusion after close analysis of the record. Only twice has the spending of the First Session been exceeded—both times during World War II.

For the current fiscal year (1962), President Eisenhower sent the Congress a Budget that denoted a surplus of $1.4 billion, partly based on the assumption that postal rates would be hiked enough to wipe out an annual Post Office deficit running close to $750 million.

President Kennedy revised the Eisenhower Budget upward to create an estimated deficit of $6.7 billion. Congress went along with the boost, but stalled on any increase in postal rates. Next year, an election year, will find the Solons in firm opposition to postal hikes.

Reliable sources predict the President's fiscal 1963 budget will show a minor surplus—perhaps as much as $1.2 billion. Equally reliable sources, especially on Capitol Hill where the spending legislation is enacted and where the appropriations are made, foresee a 1963 deficit (after all the chips are down) of close to $6.7 billion. It adds up to more inflation—although the present dollar is worth only about 44.1¢ against one of full value in 1947-'49.

Getting back to the performance of Congress in the First Session, we find that the New Frontiers Administration fared well in its efforts to bring about the eventual Fabian concept of what America should be—complete Government domination of all phases of business and of our private lives—"from cradle to grave," with an omnipotent Washington bureaucracy directing the entire process.

As Congress Acts on JFK Measures

There were instances in which the Congress—particularly the House of Representatives—bucked the man in the White House. The Senate, with a top-heavy (65-35) Democratic majority, generally "went along" with the Kennedy requests for costly legislation.

In two instances, however, the Upper Chamber refused to be bullied. Quietly, the Senators swept

the Administration-requested alteration of its controversial anti-filibuster Rule XXII under its carpet early in the Session, eventually to let it die there in September. The same thing happened to Civil Rights legislation, a No. 1 Kennedy campaign promise.

The House of Representatives, largely dominated by the now-deceased Sam Rayburn, accepted the Kennedy demand that its Rules Committee be packed with two additional "liberal" members. Reluctantly, Speaker Rayburn engineered this one, but only by a majority of five out of 429 votes cast. Later, the stacked Committee turned on the Administration, by an 8-7 vote, to kill its classroom construction and teacher pay measure.

The arrows which punctured some of the New Frontier balloons came from the House, "notorious" for its close alliance with voters at the grass roots, and it was largely the written protests of the individual, that served to stymie portions of the Kennedy program.

A Trend to the Left?

A recently published brochure of the Democratic National Committee lists 33 "achievements" of the Party during the First Session of the 87th Congress. Some of them are relatively minor in the national picture, some of them originated with the Eisenhower Administration. Most, however, denote a trend to the left. We review some of them here.

As so-called anti-depression measures, Congress extended unemployment benefits up to 13 weeks for approximately 600,000 idled workers who had exhausted their benefits. Added was special compensation for children of the idle workers. The total cost is unknown, but is variously estimated at from $320 million to half a billion. **Like all "give away" measures, it expands a bureaucracy that will be back next year for more funds to continue a system of "handouts" that encourages loafing and keeps the bureaucrats on the payroll.**

One of the most bragged-about pieces of economic legislation was the Area Redevelopment Act, carrying $396 million for long-term, low-interest loans to economically distressed areas—cities and counties—where industry has not kept abreast of progress, or where the citizens are simply unwilling to seek a livelihood in other areas.

One Democratic Member of the Upper Chamber forecast that ARA will burgeon into a bureaucracy that will demand as much as $2 billion annually in a short span of years.

Social Security amendments raising benefits for 3.7 million presently retired persons, but without accompanying SS tax increases to "pay the freight," also rank high on the list of "accomplishments."

Cost is not yet known, not even estimated by any responsible Government or private source, but it is certain to "nick" the $22 billion Social Security trust fund just at a time when annual income was inching ahead of annual outgo.

Lobbies at Work

Elsewhere on the Social front, the President's top priority Medical Care for the Aged, through increased Social Security taxation, lay dormant in the House Ways & Means Committee, despite White House pressure, intensive lobbying by the ADA and organized labor, as represented by the AFL-CIO. This is high on the New Frontier's agenda for action early in the next Session, but its prospects remain somewhere between "dim" and "fairly possible."

Powerful lobbies support it, equally powerful lobbies oppose it. In the background is the resurgent Dixiecrat-Republican conservative coalition which objects to another "Federal invasion of the field of Medicine which should be above any Federal meddling."

To "get the country moving again"—President Kennedy's own words—a comprehensive $9 billion housing program embodying 35-year Federally guaranteed mortgage loans (the President proposed a 40-year limit) for low-income families was enacted into law. The long-term, low-interest loans are limited to homes of $15,000 or less. The measure simply builds "slums of the future," as housing in this price range cannot outlive the 35-year mortgage.

With monthly payments of principal and interest less than average rentals, and buyers' equities almost negligible at the end of 18 to 20 years, the temptation to let Uncle Sam "hold the bag" on mortgage guarantees will be close to overwhelming—a debt for the next generation to pick up.

The President's request for a $1.25 minimum wage ran into sufficient GOP-Dixiecrat opposition to break it into two steps—$1.15 now, $1.25 in the next two years. Coverage was extended to about 3.6 million workers against the 10 million requested by the President.

Primarily a vote-getting measure that had the enthusiastic support of the AFL-CIO (for organization propaganda), the new minimum wage law will not seriously affect the national economy. Definitely, however, AFL-CIO will use it in the Congressional elections of 1962 in an appeal for a more liberal Congress.

Legislation Passed in Last Session

Legislative "positives," in the opinion of the Democratic National Committee, include Federal assistance for water pollution control (primarily a state and municipal problem); doubling of funds for space exploration; funds for a saline water conversion program, initiated by the GOP during the Eisenhower Administration.

Other "positives" the Democrats claim credit for are purely figments of the imagination. They brag about the creation of more than 70 new Federal judgeships, demanded three years ago by Mr. Eisenhower, but stymied by a Democratic Congress

Administration Program For Next Congressional Session

- ★ **The budget for fiscal 1963, including further increases in defense spending**
- ★ **Medical care for the aged**
- ★ **Extension of unemployment compensation benefits**
- ★ **General Federal aid to education**
- ★ **Extension of Reciprocal Trade Agreements Act**
- ★ **Labor Legislation — Revision of Taft-Hartley and Landrum-Griffin Acts**

in the hope (realized) that a Democrat would occupy the White House when the appointments were to be made.

The New Frontiersmen crow over extension of the Civil Rights Commission, but ignore the fact that the original Commission had the wholehearted support of Mr. Kennedy's predecessor in the White House. Another subject of credit is "extension" of emergency excise levies, the corporate income tax rate of 52%—all extended five or six times at the request of President Eisenhower.

The Budget and the Dollar

On the negative side of the ledger, the First Session of the Democratic 87th Congress has to face up to the fact that its reckless expenditures and appropriations necessitated a hike in the statutory debt limit, a sure cause of present and future inflation as the dollar now threatens to drop below 44 cents.

To its credit, Congress negated the President's idea of "back door" spending by borrowings from the Federal Treasury for Foreign Aid rather than by direct Congressional appropriations. In this area, the Solons also demanded tighter control over Foreign Aid expenditures through appointment of a general overseer of the program with absolute powers to "hire and fire" and otherwise see that taxpayer aid dollars accomplished something other than the purchase of ill will.

Budget-wise, we find that the First Session of the 87th Congress, which was handed an Eisenhower Budget with a $1.4 billion surplus, accepted the Kennedy revisions to reflect a deficit of $6.7 billion. To Congressional credit, it can be said that Kennedy requests totaling $85.6 billion were wittled to $84.3 billion, neither figure representing the fixed $9.2 billion charge for interest on the Federal debt.

President Kennedy addressing First Session of 87th Congress. Unfinished business faces the Second Session, which convenes next month.

When Congress Gets Down to Business

What can be looked for next January as the 87th gets down to the business of its Second Session? The question is a fair one, but the answer is difficult. As this rolls through the author's typewriter there are reliable reports that the President will send the Congress a Budget showing a surplus of $1.2 billion, almost half of it contingent upon postal rate hikes—and these are utterly impossible in an election year. So what? We can only turn to pending legislation, the unfinished business of the First Session.

And this unfinished business can run into real money if all of it becomes law. Hopefully, some of it is doubtful, possibly impossible of achievement, but some of it will clear both Houses.

Let's take them, one-by-one, but not necessarily in the order of New Frontier's priority.

► Medical care of the aged through the Social Security system is high on the President's "must" list. It never got out of House Ways and Means Committee in the First Session, may get out in the Second, but if so it will find stubborn opposition in the House of Representatives, far more conservative than the Upper Chamber.

► Extension of unemployment compensation benefits, limited to 13 weeks in the First Session, with added benefits for children of the idle. This will come up again and, in an election year, probably will get by, but linking to it a provision for costly Federal retraining of workers displaced by automation or other industrial progress is doubtful. Congress will almost certainly stand by a previous view that such retraining is a problem for labor and management, not a tax-paid burden for *all* the people.

► General Federal aid to education — classroom construction and teachers' salaries — is another "must" in the President's book, but it is doubtful that Congress will acquiesce. Involved is the religious issue, help for parochial and other religious dominated schools. Further, the recent action of the House of Bishops of the Catholic Hierarchy in the United States, condemning such aid, puts this one "in the pigeon hole." It will come up, that is sure, but the combination of Catholic opposition and objections by the Dixiecrat-Republican coalition spells its doom.

► Another top piece of legislation is extension of the Reciprocal Trade Agreements Act, and this promises to be an issue of no mean proportions. The President is wholeheartedly back of extension, plus active U. S. participation in the European Common Market.

► Involved in the foreign trade issue is the Constitutional provision that all revenue and tariff matters originate with the Congress, and there is a tendency—noticeable now—for the Congress to take back those powers it has delegated to the Executive Branch. Despite enthusiastic endorsement by the President of broadened world trade through extension of the RTA Act and our participation in the European Common Mar- *(Please turn to page 372)*

Inside Washington

BY "VERITAS"

CASTRO, Cuba's undisputed dictator, has "laid it on the line" that he is, and has been, for a long time, a dedicated Marx-Lenin Communist. It is of no particular surprise to our State Department or our intelligence forces. It does, however, bring the whole thing into the open — confirms to the U. S. public that we have a potential Red missile base within 90 miles of our shores. Missing from the Castro declaration of Red ties is positive support from Moscow. The bewhiskered boss of the Pearl of the Antilles is in an economic jam that he can't very well get out of unless Khrushchev's Red Russia buys more sugar and other Cuban goods. We continue to buy a lot of Cuban tobacco, but public criticism may force a reversal, in which case the economic collapse of Mr. Castro may be nearly complete.

WASHINGTON SEES:

Demise of the United Nations is about three years away — maybe a little more, a little less, but the "handwriting on the wall" is plain to all who will use their eyes. And this does not come from sources which have always been opposed to our membership in the multi-nation organization to preserve the peace of the world.

Rather, it is the considered opinion of many high in Washington diplomatic circles, including some within our own State Department and other Administrative sources, who flatly decline to be directly quoted at this time.

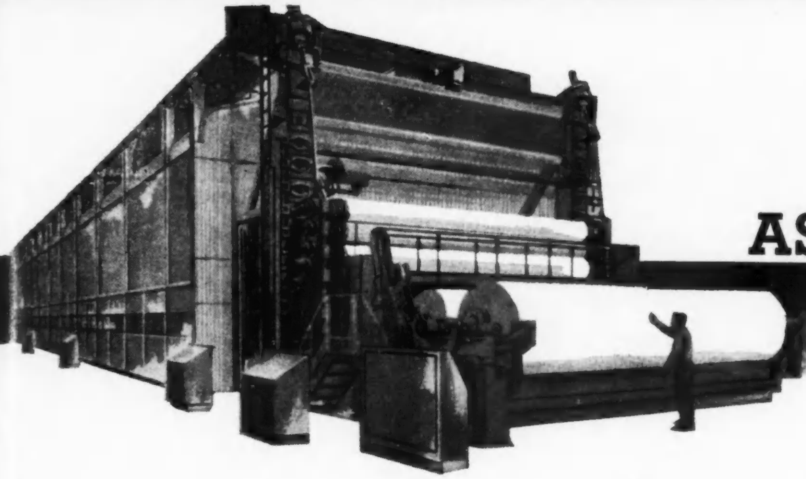
A consolidated summary of opinion is:

"The U. N. is now definitely ineffective as a peace preserving organization. It failed in the Congo, couldn't keep Cuba from becoming an all-out Communist State; has dilly-dallied with the whole Latin American situation, depending upon the vacillating Organization of American States; has no effective means of collecting assessments levied against its members — would even be 'broke' now but for financial aid from the United States — and is now burdened with the voting power of newly-independent nations without the capacity to realize their responsibilities in an organization of this nature.

"During its whole life, the United Nations has been nothing more than a world-wide sounding board for the Communists, openly avowed enemies of the free enterprise (capitalistic) system. Like the former League of Nations, it is certain to topple of its own futility."

LABOR'S Congressional influence wanes. This comes from labor, Congressional and Executive sources as the Second Session of the 87th Congress prepares to reassemble next month. Largest, most expensive and best housed lobby in Washington is that of the AFL-CIO and other unions, but this time it is without threat to the Solons. There is a bad schism within the House of Labor itself — Industrial Unions *versus* the Craft Unions; forces within the movement would oust aging George Meany as AFL-CIO president; labor forces are demanding liberal legislation that the Congress will not go along with. A thumb-nail sketch of Congressional opinion would be, "It is time that labor came up with something for the good of the country, not just to the advantage of the bosses of labor."

TAX HIKES early in next Session of Congress are "inevitable if we are to preserve our national solvency." The words are those of Capitol Hill's most vigilant "watch dog" of the Treasury, who forecast that the 1963 Kennedy Budget will show a very "iffy" surplus. (Editor's note — "leaks" from high sources put the anticipated surplus at just short of $1.4 billion). Continuing (in a private interview with this reporter) the Capitol Hill figure emphasized that our real national debt is "far and above" the present statutory limit of $298 billion, with borrowings from the Treasury now standing close to $29 billion, "much of it loaned out on soft security." "In the background," he added, "are billions of Federally guaranteed mortgages, many of which may be defaulted with resultant heavy losses and further impairment of our fiscal structure." It is a far from comforting outlook, but the integrity of the source cannot be doubted.



AS WE GO TO PRESS

Moon Voyage May Be Closer Than We Think. In a message to Congress some months ago, President Kennedy set a sort of vague target date "of within this decade." It now develops that National Aeronautics and Space Administration (NASA) officials see accomplishment "by 1965, and far ahead of the Russians." Tight-lipped, they give no details supporting their optimism, but it is a fact that NASA is headed by an executive of proven ability — not a scientist — James E. Webb, a Budget Bureau chieftain during the Truman Administration. Webb is not a "driver," but he has the knack of getting the job done. Further, a source close to Mr. Webb has said that "eighty percent of the job will be done by private industry, with the Government acting, primarily, as nothing more than a co-ordinating set-up." He added, "We cannot do the job without the unstinted aid of private enterprise, nor would we try to."

Elsewhere on the space front, the Nov. 29 malfunction of the chimpanzee-bearing, orbital space capsule, is "not too discouraging," according to a reliable NASA source. He readily admits it may mean a delay until next year before we successfully orbit Astronaut Lt. Col. John H. Glenn. This, however, will not retard a program of successful flight to the moon (and return), he declared, adding that although orbiting the Earth and shooting straight for the moon have "similar and related" problems, there "will be no delay in the NASA moon program with a 1965 or 1966 target date of accomplishment."

Urban Transportation Problem "Worse Than Acute." This is the asserted opinion of a Washington bureaucrat who would like to see the Housing and Home Finance Agency "take over" the transit problems of all urban areas. He thinks of long-term loans to local transit systems, but with Federal supervision. As yet, he has not advocated limitation of automobile distribution, compulsory car pool operations and complete abolition of on-street parking, but they all revolve in his mind. On a related note, Washington agencies for months have been inducing employees to enter car pool arrangements. Success has not been outstanding but there has been some easing of traffic congestion during rush hours in the Nation's Capital City.

U. S. Air Transport Industry "In Trouble." This is the verdict of a transportation expert with a privately endowed research organization, but confirmation of his opinion is not yet available from the Federal Agencies involved — CAA and CAB. He (the expert) says that growing plane capacity and intensified competition in air transportation have created financial problems which "only radical departures from present policies may cure." Incidentally, he does not catalog the "radical departures from present policies" that would be curative, but asserts the Federal Government must assume responsibility for policies and programs to create an adequate "total system of modern transportation," noting on the side that today air travel exceeds that of rail and bus combined. He said that air financial reverses in the present year were second only to the big deficits that were piled up in the first postwar year of commercial flying.

No Solution To Costly Farm Problem In Sight. This is the considered opinion of a Capitol Hill agricultural expert of nearly 30 years

standing. In a confidential interview with a representative of this Service, he said, "Let's be honest about it, Congress does not have, cannot find, the solution and we won't find it in the next Session. In my long service on this Committee (Agriculture) we have had many panaceas advocated by the White House and Members of the Committee, but none of them have worked. We simply cannot cut the farmer adrift — tell him to go back to free and open markets under the private enterprise system, but we still do not have the answers that will assure his survival. The current plan is going to cost $2 billion more than was estimated, both by Congress and the Administration." (See article on 87th Congress, starting on page 337 of this issue.)

"Cradle To Grave" Controls In The Making. Cooking in the minds of the Fabians within the Administration is an all-inclusive plan to control the individual, literally from "cradle to grave." Congress has already authorized Internal Revenue Service to number all tax records by the person's Social Security Registration number. Now the Fabians would go a step or two further in regimentation. Social Security numbers, by law, would be obtained with issuance of the birth certificate, while retirement at age 65 (physically or mentally able or not) would be compulsory. The concept is that an all-wise Washington bureaucracy would then be able to "control" the allegedly serious problem of unemployment "caused by the oldsters holding jobs that should be available to the present and coming generations." Very possibly it all will be presented to the next Session of Congress, but of a surety it is headed for a Committee "pigeon hole" for possible "future consideration."

New Bank Interest Rate Helpful But Not Liberal Enough. Recent Federal Reserve Board ruling that member banks may pay as high as 4% on savings deposits of one year, or longer, standing will be "helpful, but it should not have had this time limitation; should have applied to all savings deposits," according to one well-known Capital City banking authority. He pointed out that building and savings and loan associations — almost universally — are paying "at least 4%, compounded quarterly, and that still leaves the major banks in a poor competitive position." In the meanwhile, a quick survey by this Service reveals that savings institutions, Federally guaranteed, are paying from 3½% to 5%, compounded quarterly.

Business Still Lags In The Political Arena. This is the verdict of the National Association of Manufacturers, the National Chamber of Commerce and numerous Trade Associations. All of them declare that Organized Labor and other "liberal" groups are "running rings around business" in the area of politics. Labor and the liberal organizations really work at politics from the precinct level. Business groups take a too lofty approach to the problem — spend too much time in seminars, too little time with the grubby, grimy work of getting the citizens to register, fully acquainting them with issues, and transporting them to the polls on election day.

Stable Steel Prices Baffle Organized Labor, Please Administration. Passage of Dec. 1 without "across-the-board" hikes in steel prices is cause for worry in top labor circles, especially "Dave" MacDonald's United Steel Workers of America. The labor "wheels" see the firm prices, despite wage hikes, a bargaining point for management that will be difficult to overcome when contracts are due for renewal and renegotiation next year. Further, some of the union executives privately concede that "public opinion is running against the unions at this time, will be even harder to overcome if we pull a strike next year." The man in the White House says nothing, merely grins.

Supersonic Jet Air Transport About Three Years Away. This is the considered opinion of Federal and private experts in the field of air transport. On the drafting boards is a craft with a theoretical speed of 2,100 miles per hour at altitudes in excess of 13 miles. In the works is a Federal Aviation Agency (FAA) request to the Air Force to let contracts to private industry to develop the high-speed craft. It is expected that Federal research costs will run to $550 million, including $11 million appropriated during the last Session of Congress. It is not entirely an Air Force undertaking — National Aeronautics and Space Administration (NASA) will co-operate, as will other Federal agencies. In the meanwhile, the Air Transport industry has serious financial ills that are detailed in the third item of this article.

IS NEUTRALISM NONSENSE—OR A DANGEROUS GAME?

By NORMAN A. BAILEY

► **The folly of playing at "sitting on the fence" is toppling one after another of the neutralist leaders.**

► **Why the U. N. anyway — when firm decisions must be made and debating leads only to action that is too little and too late.**

► **Are we going to let the O. A. S. tell us what to do about Cuba and the Dominican Republic — be guided by liberal extremists who have always been wrong — or use the native courage and common sense that is sure to see us through?**

PRIME Minister Jawaharlal Nehru of India, Dean of the world's neutralist leaders, recently paid a visit to the United States, which has often been characterized by him as one of the warmongering nations of the world and a leader in world imperialism—and which in return has poured billions of dollars into India in a vain attempt to get its socialist economy on the road to industrial growth.

In the course of his trip, and presumably in deference to his hosts and to the growing annoyance with neutrals on the part of the American people and even, *mirabile dictu*, the present liberal administration, Nehru was heard to remark that the Russians behaved in a "brutal manner" in Hungary in 1956. He hastened to add, however, lest he should lose his credentials as head neutral, that this brutal action was undoubtedly due to the fact that the Russians had been scared by the Franco-British invasion of Egypt. This self-proclaimed "moralist" apparently is unable to see the difference between international police action taken as a result of an unprovoked act of piracy by Egypt, and the crushing of the aspirations for freedom of the entire Hungarian people.

Later on, speaking to a convention of students gathered in the Hotel Commodore for a weekend conference sponsored by the Collegiate Council for the U.N., Nehru remarked on the basic similarities of the American and Russian people, both "frank," hospitable and exceedingly friendly people. "They want to like each other and they want to be liked." From this travelogue description Nehru deduced that there was no difficulty in ". . . the United States and the Soviet Union co-existing; living it and practicing it."

At the very moment that Nehru was mouthing these typically meaningless generalities the Indian Congress was being told that the Red Chinese had violated the Indian border eleven times since the agreement on border points of April, 1960. Parliamentary Secretary J. N. Hazarica's description of "co-existence" in practice, was as follows: "These fresh instances of violation of Indian territory by

the Chinese establish conclusively that the Chinese are guilty of further aggression against India and their protestations to the contrary are only a cloak to cover up renewed incursions and aggressive activities."

Nehru himself followed up this attack with the statement that "India will take effective steps to recover territory in the possession of China." He also stated that "the situation has changed progressively in our favor, military and otherwise." His proof of this appeared to be that the Reds had advanced their checkpoints in Ladakh about twelve miles. *This definition of a situation changing "progressively" in his favor is typical Nehruist thinking, where retreat is advance, advance is retreat, and communism is democracy.*

To further add to the irony, India's left-wing Minister of Defense, V. K. Krishna Menon had, a few days earlier, told the United Nations that America's underground testing was as bad as Russia's atmospheric testing, and that consequently there was no choice to be made between the two countries on this score. Three Chinese communist Reds walked out of a meeting which Nehru addressed in Calcutta on December 2, and during which he attacked the Chinese incursions into the Indian border. Other delegates from communist nations remained in their seats.

THE NEUTRALS

	Those likely to lean towards West	Those likely to openly espouse communism	Those likely to attempt to remain neutral
INDIA	X		
CAMBODIA	X		
INDONESIA			X
CEYLON			X
IRAQ		X	
EGYPT			X
YEMEN			X
YUGOSLAVIA		X	
CUBA		X	
GHANA		X	
GUINEA		X	
CONGO (FORMER BELGIAN)		X	
MOROCCO			X
FINLAND	X		

Neutralist Bluff Being Called

The growing impatience with unneutral neutralism in this country, an impatience that one assumes was imparted by President Kennedy to Nehru, coupled with the renewed Chinese attacks on the Indian border, and Mao-Tse-Tung's challenge, may now result in an "agonizing reappraisal" on the part of the Asian leader.

Nasser—The neutralists recently suffered another blow when their second-in-command, Nasser, was forced to withdraw from Syria, a move which played havoc with his prestige in the Middle East and elsewhere. The Belgrade "summit" meeting may well have been the last at which the present cast of players will be represented.

It is very likely that a new alignment of nations is in the making, with those neutrals directly attacked by the communist empire necessarily looking to the West for protection, while some of the others will show more openly their communist sympathies, as soon as they feel the moment is propitious. **The one advantage of the present weakness of Western policy may be to embolden some of the "neutrals" to proclaim their true allegiance, in a manner so blatant that even an American "liberal" will have to recognize it.**

Tito—Another "neutralist" leader is being examined more closely now. A congressional study prepared for the Senate Internal Security sub-committee by Dr. Charles Zalar, a former Yugoslav diplomat, now associated with the Library of Congress, *disclosed that much of the aid we have poured into Yugoslavia since Tito's break with Stalin in 1948 has gone to weaken the position of the West.*

Not only has the United States supported communist Yugoslavia to the tune of one-half to two-thirds of the Yugoslav budget annually (and with nothing in the way of a quid-pro-quo)—but in turn Tito has used part of the money to finance the neutralist movement throughout the world, some of his credits going to India, Ceylon, Indonesia, the United Arab Republic, the Sudan, Ethiopia, Ghana and others. In conclusion, the report stated that ". . . it is only reasonable to expect that Tito will fight on the Communist side."

It is to be hoped that this new evidence, added to that which has been accumulating for years and the recent craven performance of the neutrals at the Belgrade Conference, will stiffen the Administration's resolve to look more closely into the motivations and underlying philosophies of the so-called "neutral" nations before pouring more of America's wealth into them.

United States Footing the Bill for What?

United Nations—America's wealth is also being poured into the United Nations' Congo operation, whereas the communist bloc refuses to pay anything at all. **Nevertheless, the actions of the U.N. troops up to this point have all been directed against the pro-Western government of Moise Tshombe in Katanga, while pro-communist Antoine Gizenga has been rewarded with the post of Vice-Premier in the new central government and his satrapy in Oriental Province has not been touched.**

In the name of order the U.N. is attacking the only province which has been able to maintain relative order since independence. If the U.N. were truly impartial this would be bad enough, *but in actual practice the U.N.'s actions, whether deliberate or not, actively aid the communist cause.*

Outvoted and Outwitted—The United States is now outvoted in the General Assembly, and will also be outvoted in the Security Council when the inevitable shift in geographical allocation of seats comes about. Another sign of the ideological shift of the United Nations is in the person of the new neutralist Secretary-General, U Thant of Burma, put into the position with the support of the United States. Trygve Lie and Dag Hammerskjold at least came from countries firmly aligned with the West. Lie's sympathies were openly and obviously Western. The situation with Hammerskjold (the Bang-Jensen case, the Congo) was less clear and with

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✳ COMPANIES IN TWO KEY INDUSTRIES MOVING INTO FOREIGN MARKETS IN STRENGTH

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By Dillard Spriggs

This most interesting feature covers sales and earnings progress of companies that have diversified their operations in the most dynamic areas in the foreign field. It gives the reasons why these companies are seeking new markets — the progress they have made — the areas of expansion overseas — and supplies the answer to the high price-earnings ratio at which they are selling — and their outlook for 1962.

A Fresh Look at IMPORTANT NON-FERROUS METALS PICTURE FOR 1962

By Caleb Fay

This expert study assays the position and outlook for copper — aluminum — zinc — and lead on the domestic — on the foreign level — under competitive prices . . . tussle for markets — new and diversified products. It deals too with political aspects affecting non-ferrous metals in South America — Africa — and under cold war. Important and revealing for investors — shows extent to which the outlook has been discounted by current prices of shares — where it has not.

A GREEN LIGHT for the RAILROADS in 1962?

— Which are in the Best Position?

By Robert B. Shaw

In our January 14 issue last year we called attention to the change in the fortunes of the rails, and that they had suffered from consideration as a group instead of on individual investment merit. Then the rails began to move.

This feature now deals with the prospects for settlement of various rail problems — the possibility of constructive conversion of roads into transportation companies — through mergers — and suggests those likely to considerably improve their earnings-dividend position — and make progress in 1962 — those to remain static — or continue to tussle with their problems.

1962 OUTLOOK FOR 40 INTERESTING BLUE CHIPS AND CYCLICALS

By Edward R. Heath

This interesting and practical feature — in text, tables, and with pertinent comments — gives you a realistic picture of the position of the various companies and their outlook for 1962. You will find this article to be extremely valuable in the light of the great interest in this class of issue at this time.

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Analysis and Interpretation of t Three Presidential Messages

State of the Union — Economic — Budget — New Frontier Polici

By MALCOLM STEWART

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PART II — JANUARY 27th ISSUE: led review of major budgetary changes ral income and outgo . . . tax prospects . . . ry-deflationary aspects . . . foreign aid — nse . . . with a precise analysis of the Pre co-nomic program and his plans for sho nd stand-by economic aid.

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U Thant we probably can expect the usual neutralist pro-communist unneutrality. **At the very least it is time to apply Article 19 of the U.N. Charter against the non-paying members of the Soviet bloc, and either force them to pay or to lose their vote in the General Assembly.**

How Foolish Can the Liberals Get — How Dangerous?

An ironic sidelight to recent history is dictator Khrushchev's current trip through Siberia to find out what is going wrong with Soviet agriculture. During the recent 22nd Soviet Communist Party Congress Khrushchev had boasted of the tremendous advances of Soviet agriculture, and had claimed that yield per acre had surpassed that of the United States. Now by his own admission it appears that these boasts were to be given no more credence than most other Soviet claims of economic prowess.

The "liberal" press, of course, will continue to proclaim that we are losing the race with Russia, and that we are losing it because we ourselves are not sufficiently collectivized. It is high time that the Western world, and particularly the Western "liberals," began to examine Soviet claims of economic progress with the proper measure of scepticism. Altogether too much reliance is placed upon faked Soviet statistics and unfounded claims. The recent pendulum-swings in the West between panic-stricken hysteria and lethargic apathy are largely due to the constant cries of "wolf" emanating from the liberal camp.

The two most dangerous approaches to the communist threat are either to over-estimate it or to under-estimate it. The "liberals" do both, alternately, and thus we are treated to the spectacle of smug assurance alternating with the most abject despair. Neither reaction will aid the cause of freedom in any way. Only realistic appraisal followed by equally realistic action will do the job.

The Tragedy of the Muddled Liberals

Recently I was invited to participate in a Conference on Disarmament held at Columbia University. I was appalled by the utter unreality of the atmosphere of this gathering. One of the most disturbing aspects of it was the constant reiteration of the theme that the American people must be taught to be less distrustful of the Soviet Union and of communist motives.

No one indicated *why* the American people should be less distrustful of a power which has constantly broken its agreements with other nations and which just cynically broke the bomb-testing moratorium. It is this type of thinking which will put us into the hands of the communists without it being necessary for them to fire a single shot directly at an American soldier. Little wonder that they are so much in favor of "co-existence." If we continue to co-exist as we are, with our forces occupying progressively less of the globe, and the communists progressively more, we will soon be co-existed out of existence.

Let's Get the O.A.S. Off Our Back — and on Castro's

The Organization of American States meets in January to take up the problem of communist infiltration in the Western Hemisphere, with obvious reference to Cuba. A two-thirds vote to impose sanctions is probably obtainable. Such a vote would give us all the legal excuse we needed to take action against the communists on our doorstep, and would demonstrate to the nations of Latin America that this country once again means business, a lesson that is sadly needed.

Fidel Castro has recently proclaimed that he is a "Marxist-Leninist, and will be one until the day I die." It is to be hoped that the Herbert Matthews of this world have taken note.

All of us who were convinced, on the unimpeachable evidence of his actions in Cuba since taking power, that Castro is a communist, have been subjected for months to the constant carping of those who have claimed that he was merely an honest reformer who let things get out of hand. It seems that we heard the same nonsense about Mao-Tse-Tung and the Chinese communists, who were characterized as harmless "agrarian reformers." These "liberals" learn nothing, and forget nothing. They, not the conservatives, are the true "minds of the nineteenth century," since their vision extends no farther than the sweatshops of Dickens' London.

Immediately after receiving the news, however well known previously, that Castro had finally proclaimed his communism, the Caribbean command should have been sent into action. This, of course, was not done, but the least the United States can do to save a shred of its dignity, prestige and strength, is to demand sanctions at the O.A.S. Foreign Ministers' meeting.

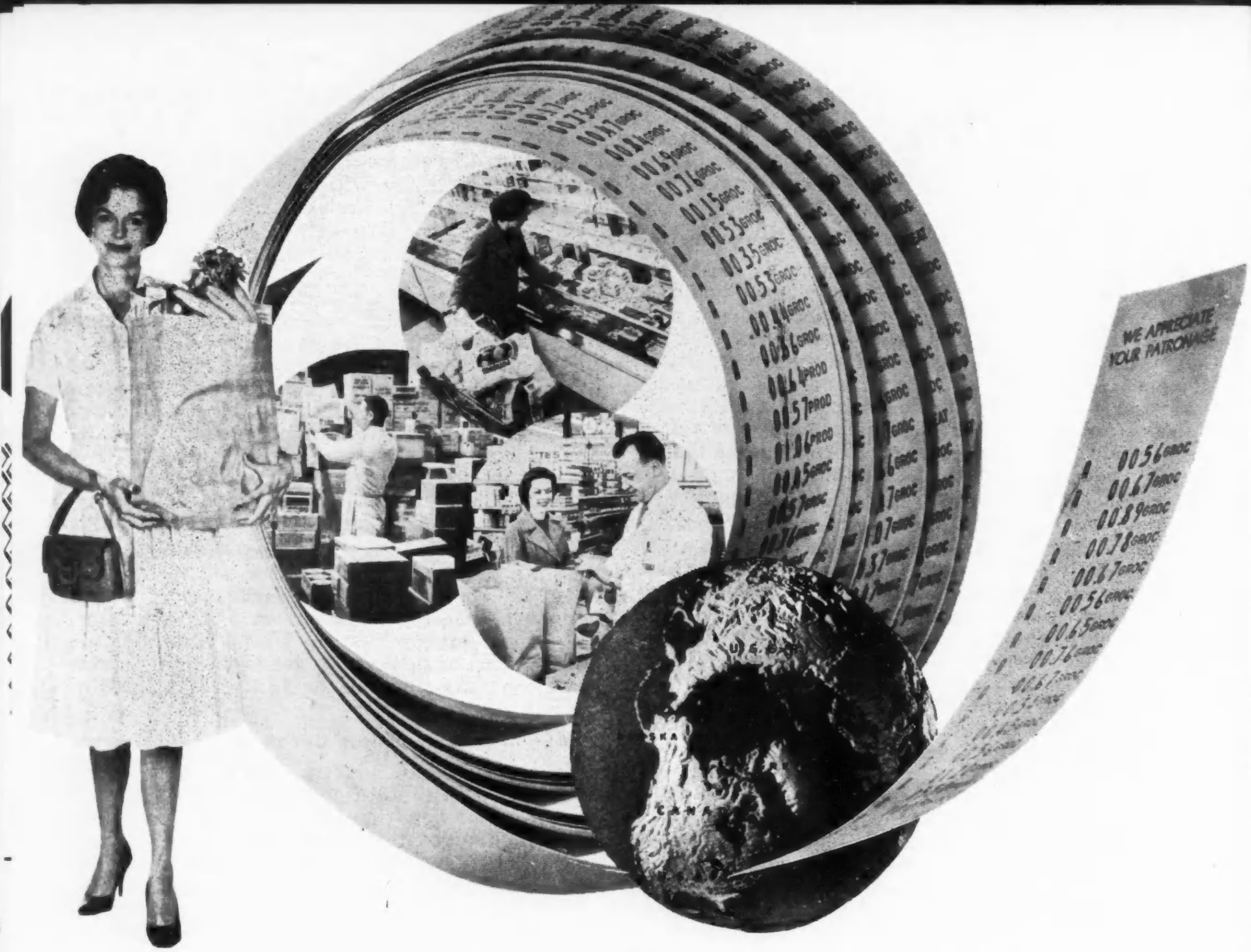
Backing of New Dominican Government Is In Order

Another Caribbean country, the Dominican Republic, is also in a state of turmoil, following the assassination of long-time dictator Rafael Leónidas Trujillo in May of this year. The Trujillo family is now entirely out of the island, and President Joaquín Balaguer is attempting to restore order and establish a coalition government with the opposition parties which came into being upon the death of the dictator.

Despite the support of elements of the American Navy, and despite the fact that he apparently can count on the Dominican armed forces, no agreement has yet been reached. Some of the opposition elements are genuine patriots, others are Fidelistas, who have no other aim than to overthrow the government and establish a communist dictatorship. These elements can be identified by the degree of their intransigence towards the Balaguer régime. Despite China and Cuba, we are now undoubtedly in for another spate of warnings against interfering with the "agrarian reformers" of the Dominican Republic. The United States government had better act fast and put on whatever pressure is necessary to see that a stable government is established.

The Outcome for the West

Another example of too little and too late which is in the works, but which can still be avoided is our foot-dragging regarding come sort of association with the European common market. The world is being organized in regional economic blocs, and if we do not act fast the U.S. will find itself isolated, and with a constantly declining volume of exports. The European Common Market is not a wild-eyed world federalist dream, it is a concrete reality which will have to be taken into account. The Free World is one, or it is nothing, and every demonstration of the vitality of capitalism versus communist failures and muddling is a step in the direction of the preservation of freedom. END



More Growth Ahead For FOOD COMPANIES As They Move Into Huge Foreign Markets?

— After Sharp Rise in 1960 and 1961

By EDWIN CAREY

- **A meaningful story of food company operations abroad — versatility of their set-ups — expansion programs.**
- **Their enormous success in launching products in the individual countries — interesting tea-drinking Japan in Maxwell House Coffee — how Borden helps to solve unemployment problem in County Cork, Ireland — developing new tastes for the foreign palate — intriguing the interest of housewives from all lands in American food products.**
- **Companies that include their profits from operations overseas in their balance sheets — those who do not consolidate foreign earnings — companies in the best position.**

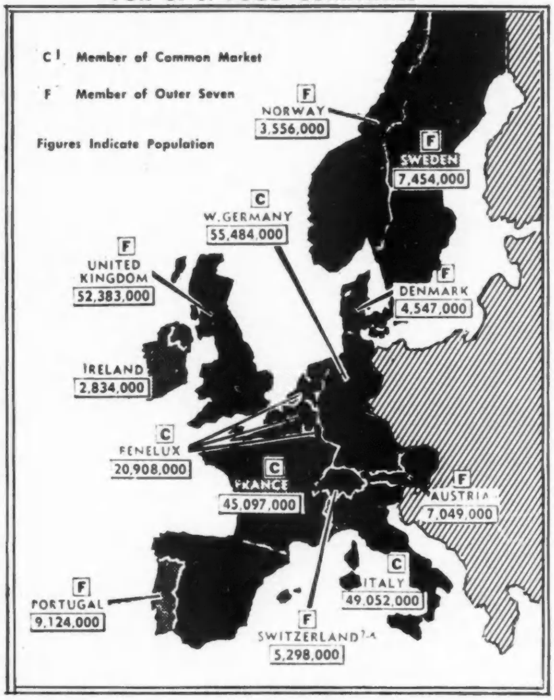
THE food companies are beginning to make dramatic gains abroad, penetrating the 270 million population Free European market as never before. This does not imply that the U. S. market of 180 million is fully saturated, but it is true that the going is getting progressively tougher here.

Total sales of foreign subsidiaries of domestic food companies are expected to jump 15% in 1961 over 1960, and industry sources look for a minimum further gain in 1962 of 10%. This 25% gain in two years is soothing music to investors who have watched the food stocks go higher and higher, possibly heading toward dangerous ground unless earnings growth can be sustained or accelerated. For example, since last year's first quarter—at the beginning of the recession that we are now climbing out of—**Beech-Nut** has soared from 33 to 85; **Campbell Soup** from 45 to 130; **Corn Products** from 23 to

61; **General Foods** from 49 to 102; **Heinz** from 26 to 70; and **Standard Brands** from 35 to 85. One conservative-minded portfolio manager for a large pension fund who bought the food stocks for their stability in case of recession scratched his head in disbelief.

"The risk now is not in the earnings," he said, "but in the price-earnings ratio. I wish I knew whether this higher market appraisal of earnings is typical or temporary." There is good reason to wonder. In less than two years the price-earnings ratio of a number of food processors has increased from 13 to 17 times to a range of 27 to 35 times.

A HUGE FOREIGN MARKET FOR U. S. FOOD COMPANIES



Total population of European Common Market and British Free Trade Area is more than 270,000,000 compared with United States 185,000,000

New Earnings Source Needed To Justify Scarcity Values

Portfolio managers have increasingly favored consumer type stocks where the earnings trend shows gains each year—if only modest gains—and supplies a measure of confidence regardless of recessions. Such has been the case with many producers of packaged foods. Campbell Soup has enjoyed continuous growth in earnings per share over the last 15 years. To be sure, a scarcity effect also enters this picture, as 65% of the outstanding shares are still held by the John T. Dorrance Trustees, and a good portion of the balance has been salted away in variout investment funds. As demand for this kind of issue has grown, other food stocks have also been found by the market to be in short supply, so up go the prices. However, if further earnings gains can be made by expanding into large foreign markets, the higher stock prices could be justified.

The reasons for the growth abroad were well summarized by President Murphy of Campbell Soup when he said that non-Communist Europe is "going middle class" and discovering the advantages of convenience foods so well known to the American housewife.

Change in Shopping Habits Required

Then, too, the supermarket is finally becoming established in Europe, and this development permits the mass merchandising of packaged items. The trend toward supermarkets was delayed because of the lack of cars owned by family units. Food markets had to be within walking distance or bicycling range, and this condition required a large number of stores, encouraging the survival of the corner grocery store. In addition the shopping habits of the European housewife had become well entrenched—a trip each day for bread and milk. The idea of shopping once a week at the supermarket, loading up the car, is something new there even to car owners. Surprisingly enough, the remarkable success of Volkswagen over the last few years is already changing shopping habits. American packaged food products are being adequately displayed for the first time, and convenience products are going over well.

A Matter of Incentive

Two years ago **Campbell Soup** set up its first major foreign operation—a soup plant in England. In the first year sales were triple the budgeted expectation. Such a reception in itself provides a tremendous incentive to tap this free European market, which is 50% larger than the American market in terms of population. There are other incentives. When **Borden** set up a plant in Ireland the Irish government gave the company an outright grant of $280,000 (one-third the cost of the plant) plus tax advantages. And no wonder. Borden helped solve a chronic unemployment problem in County Cork and enabled the government to eliminate milk and butter subsidies. Belgium, Holland, and Italy also offer tax advantages to companies setting up new plants.

Profit margins abroad are usually better than in the United States, and they probably should be to justify some added risk—such as the losses suffered by United Fruit in Cuba. Some companies, such as **Pillsbury** in Ghana, have made the government a partner in their business, or in some cases local men of influence have been given interests to provide a friend to ward off the threat of expropriation. Of course, governments can fall and local big-wigs can lose favor. The risk in Western Europe fortunately appears less imposing than in Ghana. (Increased willingness of U. S. companies to invest in Europe is shown by the estimated 43% increase in capital expenditures made there by American food and beverage companies in 1961 over 1960.) In some instances pressure on profit margins is developing in Europe, but they are still noticeably better than in the United States. In 1960 Borden, for example, had an after-tax margin of 6% from its foreign operations vs. 2.8% domestically. Heinz derives about two thirds of its earnings from abroad on only one half of its sales.

Still another incentive exists for going abroad. Robert Kennedy's Justice Department is busy looking for cause to slap companies with anti-trust decrees. He has a weaker case, however, where an American company through its foreign subsidiary

Statistical Data on Food Processors

	Net Sales 1960 (Millions) — 1st 9 Months	Net Sales 1961 (Millions) — 1st 9 Months	Net Profit Margin 1960 % — 1st 9 Months	Net Profit Margin 1961 % — 1st 9 Months	Net Per Share 1960 — 1st 9 Months	Net Per Share 1961 — 1st 9 Months	1960 Earned Per Share	1960 Cash Earn. Per Share	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
Allied Mills	$N.A.	$N.A.	N.A.%	N.A.%	$.69[1]	$.60[1]	$3.69	$6.58	$2.00	52¾-32	43	4.4%
Beatrice Foods	241.8[2]	271.4[2]	1.70	1.3	1.24[2]	1.31[2]	3.14	5.40	1.60	82⅜-37	82	1.9
Beech-Nut Life Savers	N.A.	N.A.	N.A.	N.A.	1.87	2.20	2.80	3.41	1.80	88 -32½	83	2.1
Borden Co.	713.2	758.4	2.9	3.0	2.09	2.16	2.71	4.22	1.50	79¼-40¼	78	1.9
California Packing	162.7[2]	173.3[2]	4.0	4.5	.64[2]	.69[2]	1.53	2.20	.70	36⅞-13⅝	33	2.1
Campbell Soup	548.1[3]	572.4[3]	7.5	8.7	3.70[3]	3.95[3]	3.95[4]	5.37[4]	2.00	130½-45	128	1.5
Consolidated Foods	424.8[5]	509.2[5]	1.7	1.6	2.27[5]	2.20[5]	2.20[4]	3.61[4]	1.10[8]	49⅜-21⅜	39	2.8
Corn Products Co.	519.2	549.6	5.3	5.4	1.26	1.34	1.80	2.51	1.20	63 -23⅛	63	1.9
Foremost Dairies	329.5	327.1	1.8	1.8	.77	.47	.93	2.01	[9]	19⅜-12	14	—
General Foods	560.1[2]	562.6[2]	6.7	6.2	1.33[2]	1.40[2]	2.69	3.43	1.60	107¾-49⅛	101	1.5
General Mills	537.8[7]	575.5[7]	2.1	2.2	1.46[7]	1.63[7]	1.63[4]	2.95[4]	1.20	38¾-23⅞	34	3.5
Gerber Products	69.8[2]	75.2[2]	5.5	6.0	.91[2]	1.06[2]	1.89	2.37	1.00	70½-21	65	1.5
Heinz (H. J.)	340.2[6]	365.9[6]	3.5	3.5	2.36[6]	2.53[6]	2.53[4]	3.81[4]	1.00	73¾-26	71	1.4
Hunt Foods & Industries	73.8[2]	76.1[2]	3.1	3.3	.48[2]	.51[2]	2.64	4.07	.50[8]	69¾-24⅛	69	.7
Libby, Mc Neill & Libby	294.7[5]	270.0[5]	1.4	.9	.88[5]	.51[5]	.51	1.83	.40	15¼- 9⅛	13	3.0
National Biscuit	341.4	357.5	6.1	5.4	2.92	2.70	4.10	6.23	2.80	92¼-49¾	91	3.0
National Dairy Products	1,250.8	1,349.9	3.0	2.6	3.66	2.54	3.59	5.91	2.00	78⅞-44⅝	77	2.5
Penick & Ford	N.A.	N.A.	N.A.	N.A.	2.25	2.29	3.23	3.85	2.20	76½-44	76	2.8
Pet Milk	108.5[2]	107.9[2]	2.4	2.1	1.51[2]	1.32[2]	2.58	5.07	1.00	76 -27⅝	72	1.3
Pillsbury Company	373.8[7]	384.9[7]	1.7	2.0	3.03[7]	3.62[7]	3.62	6.11	1.50	70 -31⅝	70	2.1
Quaker Oats	321.8[5]	338.9[5]	4.2	4.4	3.40[5]	3.84[5]	3.84	5.62	2.20	92⅛-42	90	2.4
Standard Brands	396.7	450.1	3.2	3.0	1.85	2.01	2.57	3.90	1.80	91 -35⅛	84	2.1
Stokely-Van Camp	183.3[7]	195.0[7]	1.8	3.0	1.54[7]	2.82[7]	2.82	5.36	.80[8]	43¾-12¾	39	2.0
Sunshine Biscuits	N.A.	N.A.	N.A.	N.A.	4.71	4.43	6.72	9.75	4.40	122 185	119	3.7
United Biscuit	69.6[2]	60.5[2]	1.9	1.2	1.23[2]	.77[2]	2.26	5.79	1.00	45½-24	43	2.3
United Fruit	N.A.	N.A.	N.A.	N.A.	.40	1.07	.25	2.34	.50	31¼-14⅞	25	2.0

N.A.—Not available.

1—Quar. ended Sept. 30.
2—1st 6 months.
3—Year ended July 31.
4—Fiscal years 1961.
5—Year ended June 30.
6—Year ended April 30.
7—Year ended May 31.
8—Plus stock.
9—1/200 share of 4½% preferred stock.

Allied Mills: Leading feed producer for farm animals, may benefit from some improvement in farm income and higher feed prices. **B1**

Beatrice Foods: Third largest dairy products producer has benefitted from acquisitions in recent years, including some non-dairy lines **A1**

Beech-Nut Life Savers: Cash purchases of Martinson's Coffee and Tetley Tea broadens operations. Sales and earnings in raising trend. **A1**

Borden: Has growing unconsolidated foreign operations, including three powdered milk plants in Europe. **A1**

California Packing: World's largest packer of fruits and vegetables showing a relatively moderate growth trend. **B1**

Campbell Soup: Expanding British plant after volume tripled expectations. Reported net expected to increase again this year. **A1**

Consolidated Foods: Cannery, processor and distributor of food products. Recently increased dividend and stock split 5-for-4. **B2**

Corn Products: Has 45 plants in 20 foreign countries. Will invest $15 million abroad this year. **A1**

Foremost Dairies: Govt has leveled anti-trust complaints regarding acquisitions—may have to divest. Co expanding outside of U.S. **B4**

General Foods: Continues a sustained growth trend. Foreign sales in last five years have grown three times as fast as domestic. **A1**

General Mills: Leading domestic flour miller adding new grocery products. **A2**

Gerber Products: Some price strengthening in of baby foods should help sustain growth trend. **B1**

Heinz (H. J.): About two thirds of earnings come from abroad. Has further opportunity to cut costs at home. **A1**

Hunt Foods & Industries: Greatly diversified. Food products contribute 75% of volume which includes matches, can machinery, glass containers and publishing. **C1**

Libby McNeill & Libby: Large packer of canned and frozen foods. In cost cutting effort, will make own cans. **B2**

National Biscuit: Recent purchase of Cream of Wheat strengthens position in cereal market. Possible further acquisition. **A1**

National Dairy: Canadian penetration extended by acquisition of Dominion Dairies. Has English, Australian, and German operations. **A1**

Penick & Ford: Fourth largest producer of corn products, should benefit from some price increases for industrial products. **B1**

Pet Milk: Diversification of product lines continues with some top management changes. Recently acquired C. H. Musselman, producer of fruit products. **B1**

Pillsbury Company: Leading flour miller, appealing FTC order to divest itself of acquisitions made ten years ago. **A1**

Quaker Oats: Acquisition of Burry Biscuit will be strong addition and will broaden operations. **B1**

Standard Brands: Producer of diversified line of food products, yeast and alcoholic beverages. Purchased Planter's Peanuts for cash. Earnings should benefit from large capital outlays. **A1**

Stokely-Van Camp: Still somewhat dependent upon crop yields and commodity price fluctuations, but company continues to expand consumer lines. **B2**

Sunshine Biscuits: New management has sold carton and paper-making facilities, modernizing other operations. **B2**

United Biscuit: Management changes and modernization program, aimed to restore earning power. **C4**

United Fruit: New management trying to bring this company back through cost-cutting and new products such as vacuum-freeze items. Risks include banana crops and political uncertainties. **C2**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

joins forces with an Italian company, for example. The Federal Trade Commission recently filed a complaint that **Foremost Dairies** should be restrained from making further acquisitions and, in addition, be ordered to divest itself of a number made in the past. Perhaps partly as a result, Foremost is going abroad with renewed vigor.

The reasons are strong for expanding overseas. In 1961 the food and beverage industry has spent some $108 million on new capital outlays outside the U. S. and Canada, an increase of 11.5% over last year. **Total foreign outlays for all industry, including high expenditures by the oil industry, are estimated at $3.4 billion in 1961, up 21% from 1960.**

Creating New Tastes

Market testing of instant coffee in Japan, the heart of the tea country, revealed the surprising news that Japanese people love Maxwell House Coffee. As a result **General Foods** built a plant there last year and is now expanding it. Another almost classic example is the experience of the **Heinz Food** representative in Singapore in giving free tastes of Boston Baked Beans from a long wooden spoon. The populace apparently found the beans more tasty than their usual rice diet and returned for second and third mouthfuls. The Heinz people recognize that some years will be required before mass distribution can be made, but at least the foundation for a good baked bean market is being laid in Malaya. **Beech-Nut** is finding real success in promoting baby foods and chewing gum to Englishmen, and **Corn Products** has Mexicans eating Skippy Peanut Butter, German housewives cooking with Mazola. Powdered milk is popular in many areas because of lack of freezer space needed for whole milk. Only about 25% of English family units so far have refrigerators, contrasted with nearly 100% in the United States. **Borden** recently built its third powdered milk plant in Europe. **Standard Brands** has formed a joint venture with **General Milk** (35% owned by Pet Milk) to produce powdered skim milk and whole milk in Brazil, even though Standard Brands is not in the powdered milk business domestically. **Foremost Dairies** has milk producing operations in Turkey, Greece, Spain, and the Far East. New plants opened this year include ones in Teheran and Manila.

A Few Do Not Consolidate Foreign Earnings

Since most food companies consolidate foreign subsidiary earnings in their general statements the few who do not, understate their earnings on a comparable basis. **Campbell Soup** does not consolidate at present but plans to do so in a few years when its relatively new foreign operation reaches significant size. The company entered Italy in 1958, England in 1959, and Australia in 1960. In this particular case consolidation would hurt earnings rather than help them, as costs and expenses of foreign subsidiaries exceeded sales by some $5.2 million in this development phase last year. The investment abroad now amounts to roundly $35 million, about 10% of the company's investment in the U. S.

Borden's unconsolidated earnings amounted to $2.2 million last year or about 22¢ per share. In addition the company received $2.0 million in dividends which, of course, were included in the reported 1960 net of $2.71 per share. This means that, relative to other food companies, Borden understated its earnings by 22¢ per share; the stock is therefore a little cheaper than stated earnings suggest; it is really selling at 26.6 times last year's earnings rather than the apparent 28.8 times. The development of earning power abroad has been good, as can be seen from the following figures:

	Equity in Retained Unconsolidated Net Income	*Dividends Received (less taxes) from foreign subsidiaries*
1960	$2.2 million	$2.0 million
1959	1.5	1.4
1958	1.7	0.7

The contrast in profitability between foreign and domestic operations stands out in the case of Borden which, unlike most companies, reports sales as well as earnings of unconsolidated subsidiaries. In 1960 Borden's volume abroad increased 7.8% to $76.1 million, and the pretax profit margin increased to 9.2% from 7.7%. In the domestic operation sales increased only 1.6% and the pretax margin improved by .1% to 5.3%.

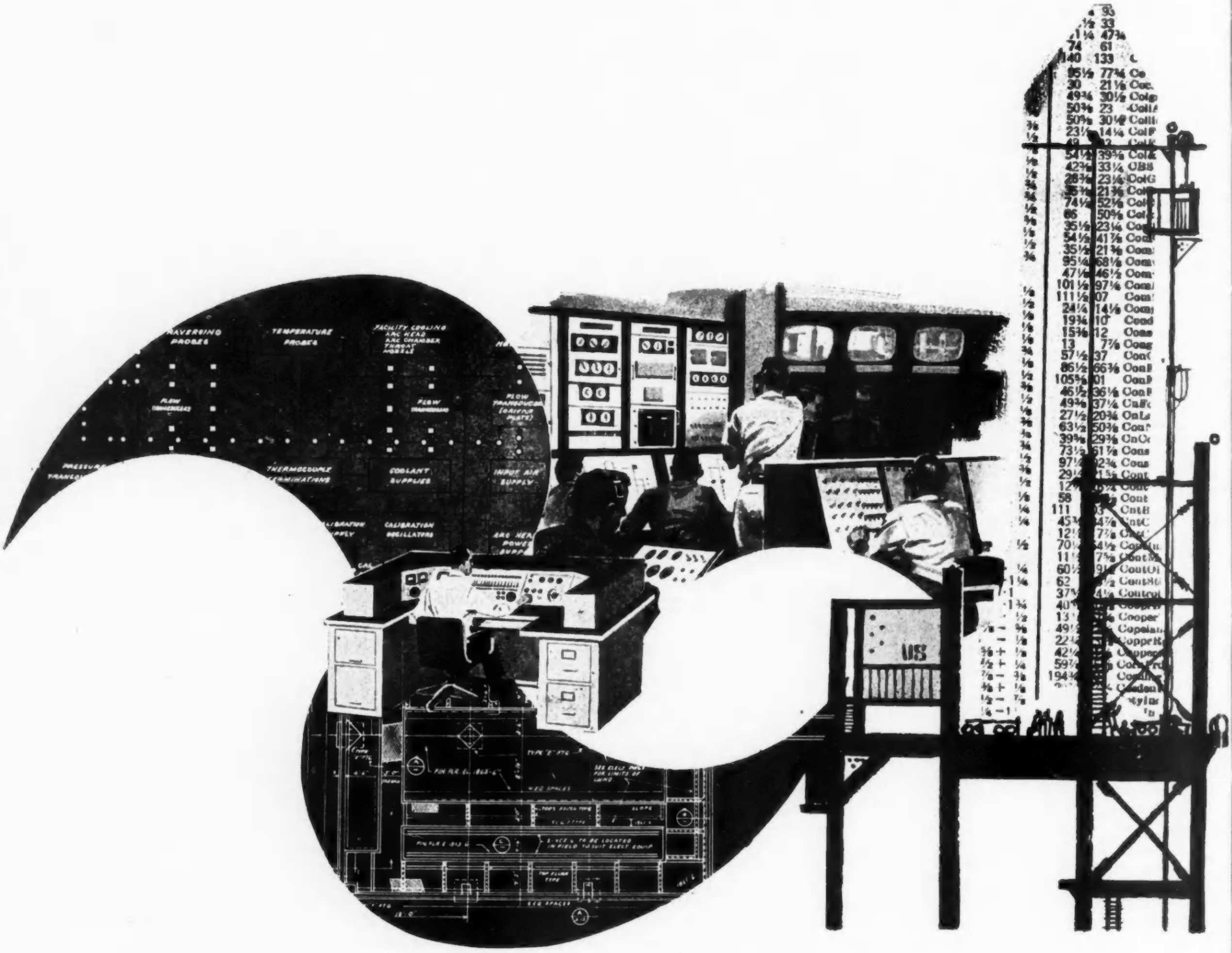
Pet Milk is another company that does not consolidate foreign earnings. It has a 35% interest in General Milk (Carnation having the remaining 65%), which handles all foreign operations. General Milk paid $350,000 in dividends to Pet last year and still retained a substantial amount of earnings for further expansion abroad. Pet's equity in General Milk's earnings were about 40¢ per share, too significant to ignore when related to Pet's reported 1960 net of $2.58 per share last year.

Other companies with substantial, growing foreign positions that consolidate domestic and overseas results are **H. J. Heinz, Corn Products, General Foods, National Dairy, National Biscuit** and **Beech-Nut,** the latter beginning after its acquisition of Tetley & Co., Ltd. of London. Virtually every food company of size has some foreign sales, although the two best known for their comprehensive selling and producing operations abroad are probably Heinz and Corn Products.

Some of the Companies Reviewed

Beech-Nut (83). At the end of 1960 this company was in the fortunate position of wondering what to do with an excess amount of cash. (Cash items alone amounted to $33.1 million compared with total current liabilities plus all long term debt of only $14.3 million.) Last January the company purchased for cash all assets of the privately held **Martinson Coffee Co.**—leaving Joseph B. Martinson the problem of what to do with some $8.5 million. In another major move Beech-Nut purchased **Tetley** for $6.5 million cash. Since no stock or debt was involved in these acquisitions, their earnings will have a direct per share benefit. This will be offset to some extent by initial expenses connected with a cost-cutting program, but the net result should be a comfortable gain in earnings this year, to possibly $3.25 per share over last year's $2.80. There have been some price increases in baby foods and chewing gum this year, but these advantages may be offset by the high advertising outlays. Baby foods appear to have long-term growth prospects, especially abroad, where they are not yet used as widely as in the U. S. The stock sells for about 26 times earnings and yields around 2%.

Corn Products (63) *(Please turn to page 374)*



ELECTRONICS INDUSTRY

In Transition Between Infancy and Maturity — What Next?

By LESLIE GOLDSTEIN

► **Appraising the status of the individual companies the large and the small — to show which will make the grade — as speculations and investment-wise.**

GROWTH is both a fascinating and frightening phenomenon, fascinating for its rewards and frightening because of its dangers. This statement applies to the relationship between parent and child, to an exploding metropolis, to a nation, to a civilization. And it pertains especially to the subject of this article, the electronics industry.

The Problem: Growth Rate Slowing — Competition Increasing

Today the investor approaches investment opportunities in the electronics industry with hesitance and confusion, simultaneously fascinated and afraid —and with just cause. Specifically, he knows that **Texas Instruments** has declined from 256 to 106, **Ampex** from 42 to 20, **Packard Bell** from 39 to 13, and **Transitron** from 60 to 18. But he is also aware that this year **Avco** has risen from 13 to 24, **Beckman** from 89 to 150, **Emerson Electric** from 51 to 84 and **Litton Industries** from 85 to 152. Furthermore, economists, industry executives, the Electronic Industries Association, and even the Labor Department are all predicting a slower rate of growth for the industry. The puzzled investor asks the journalist's famous five questions: *who, what, when, where* and *how*, and throws in another for good measure—*why?*

In a talk before the New York Security Analysts on November 1, Mr. Richard E. Krafve, President of **Raytheon**, stated:

"The electronics industry is entering a new phase. . . It will be an era in which its products, new concepts, new technologies—while still vitally important—will not be enough for continued success and growth. Our industry is beginning to mature and the future belongs to those companies which have, in addition to a breadth of engineering, the manufacturing and marketing skills and the management capabilities to compete against the biggest and the best. **The industry will continue to grow, certainly, but at a rate substantially less than in the past ten years.**

"We estimate future growth at a rate of 7 or 8% each year, which will give us an industry volume of between $18 and $20 billion by 1970 . . . Currently, there are 3,500 companies . . . working in some phase of electronics. But the inevitable economic trend away from small companies specializing in one field already is beginning. . . Before 1970, there may be seven, or perhaps eight, large integrated companies producing a wide range of electronic products from components to systems. **Of course, there always will be supplier companies but it is logical that they will be larger—and fewer—than we know them today."**

Another spokesman for the industry, Mr. Edward DeJongh, in a special report, "The Electronics Market," recently stated: "Production capacity in the electronics industry today is in excess of consumption. . . Competition has become not only more intense but highly complex as well. . . In the stage in which most electronics products now find themselves, marketing abilities are the key to success. . . **Final stage of obsolescence is one in which price cutting and low-cost production are of paramount importance."**

New Opportunities — But Harder Selection

Such statements as these show agreement by those within the industry that most electronics companies face more hazardous times over the next decade. Competition will be more intense; return on investment will diminish under this pressure; and new talents will be required to achieve success. The successful company will be the more efficient company, in the use of its personnel, engineering, productive assets, and money.

There will still be opportunities for large profits in electronics stocks. However, the investor will have to work harder in choosing his commitments. The recent history of television manufacturing provides a partial guide to the future trend. Dollar sales on the factory level climbed from $50 million to $1.35 billion in the three years. Sales then remained flat for several years,. totalled $1.23 billion in 1955 and have declined since, to $825 million in 1960. Numerous manufacturers entered the business in the late 1940's and early 1960's, and many have since dropped out, the latest casualty being **Hoffman Electronics.**

Among the survivors are two of the most outstanding growth companies in the industry. **Magnavox,** from 1950 to date has more than quadrupled sales from $31.7 million to an estimated $140 million this year. Earnings per share have grown from 37¢ in 1950 to an estimated $1.25 this year. The common stock has proved a rewarding investment, having risen from $2 (adjusted for splits) in 1950 to the current level of 44. **Zenith's** common stock has shown even more exciting gains. In 1950, sales totaled $134 million, and per share earnings were 95¢ (adjusted). This year, sales are estimated at $270 million, and earnings at $1.85 per share. The stock has risen from an average price of 3 in 1950 to the present 76.

But one great difference between the coming general shakeout and that which faced the TV manufacturers a decade ago should be noted. It is the level of stock prices in relation to earnings. In 1950, Zenith was trading at 3 times earnings and Magnavox at 5 times earnings. Today, these same issues are trading respectively at 41 and 35 times earnings. Similar multiples are being paid for most electronics issues. **The risk to the investor is therefore compounded,** for if the company suffers a decline in earnings, not only will the price of the shares drop to maintain a constant multiple, but disappointment and disillusion can result in a sharp reduction of the multiple.

Past — Present — Future Filled with Cross-Currents

The bulk of the electronics industry's growth has been due to increasing military requirements as a result of expanding missile programs, the need for detection and defense, the greater electronics content in aircraft and the growth of military communications systems. Military electronic components, for example, advanced from a mere half billion dollars in 1950 to $5 billions last year, and are projected at $7.8 billions in 1965.

Behind the projected rise in defense spending are the following trends: Spending by the Defense Department continues to rise slowly but steadily. **Electronics share of the defense dollar is expected to reach 32% by 1965 vs. 15.8% five years ago.**

The National Aeronautics and Space Administration will require greater funds for communications, check-out and test equipment. However, there are conflicting trends in this spending. **Outlays for aircraft are expected to drop $500 million by 1965, while outlays for missiles should rise by $1,700 million. Electronics equipment for shipboard use could lift to $500 million from $100 million spent in 1960.** Other communication requirements will remain constant until the mid-decade, when satellite communications will become a large factor in increased demand.

Computers and Allied Fields

Similar cross-currents should be expected in the industrial electronics field. Demand for computers could reach $2 billion by 1965 vs. $560 million in 1960. Auxiliary equipment output may be $600 million vs. $350 million last year, with extensive growth seen for memory core and magnetic disc file equipment. Industrial controls output could rise from $270 million to $500 million; test and measuring equipment could go from $300 million to $500 million. However, growth in demand for navigational aids may take output of such equipment to only $300 million from $260 million.

In the consumer electronics field, sales of black-and-white TV sets should remain fairly constant, with replacement a major factor in output. Color TV is expected to experience a large gain in sales. Sales of radio sets, phonographs and hi-fi equipment will show limited *(Please turn to page 369)*

Note: Tables and comments follow on pages 358, 359 and 369.

Position of Representative Electronic Companies

	1960 Net Sales (Mil.)	1960 Net Per Share	% Net Income To Net Worth 1960	1st 9 Months Net Share 1960 (Millions)	1st 9 Months Net Share 1961 (Millions)	Net Earnings Per Share 1960	Net Earnings Per Share 1961	Indic. Current Div. *	Price Range 1960-61	Recent Price	Div. Yield %
GENERAL ELECTRONICS											
American Tel. & Tel.	$7,920.4	$5.53	7.0%	$7,747.2[2]	$8,228.3[2]	$5.45[2]	$5.49[2]	$3.60	135⅛-79⅞	131	2.7%
General Electric	4,197.5	2.25	13.4	3,053.2	3,138.0	1.91	1.70	2.00	99⅞-60½	78	2.5
General Tel. & Electronics	1,178.4	1.02	10.0	875.5	891.6	,77	.70	.76	34⅛-23½	25	3.0
International Tel. & Tel.	824.9	1.95	7.3	592.8	623.6	1.35	1.48	1.00	60⅞-32	58	1.7
Radio Corp. of Amer.	1,486.2	1.93	8.1	1,061.0	1,090.1	1.46	1.29	1.00[4]	78⅜-46½	52	1.9
Sperry Rand	1,177.0	.95	7.5	561.3[1]	547.1[1]	.41[1]	.32[1]	4% stk.	35 -18⅜	22	—
Westinghouse Electric	1,955.7	2.22	8.2	1,457.2	1,387.5	1.71	.67	1.20	65 -37⅞	39	3.0
COS. PRIMARILY IN MILITARY WORK											
American Bosch Arma	125.4	.51	3.4	93.2	99.5	.49	.75	—	30 -13¼	17	—
Avco Corp.	322.7	.97	9.0	240.0	233.5	.71	.85	.60	27⅞-11¾	24	2.5
Bendix Corp.	792.2	4.88	10.6	606.0	570.1	3.23	3.29	2.40	74½-56¼	62	3.8
Collins Radio	215.7[4]	1.15[4]	5.5[4]	N.A.	N.A.	N.A.	N.A.	—	76 -29	35	—
Garrett Corp.	190.9	1.14	3.1	47.6[5]	47.8[5]	.28[5]	.72[5]	1.50[4]	59 -40½	46	3.2
Hazeltine Corp.	67.1	1.65	13.0	N.A.	N.A.	N.A.	.73	.80	47⅞-20	28	2.8
Hewlett Packard	60.2	.43	18.7	44.7	50.0	.34	.38	—	53 -13⅞	36	—
Hoffman Electronics	54.2	d .63	—	38.6	44.4	.17	.23	—	30¼-14⅝	16	—
Lear	90.9	1.03	13.3	68.2	70.6	.71	.78	.40	29⅜-13⅝	20	2.0
Ling Temco-Vought	362.3[3]	2.20[3]	25.7[3]	134.5	114.5	N.A.	d4.78	—	42½-20	26	—
Microwave Associates	8.7	.64	12.4	4.2[1]	4.8[1]	.27[1]	.37[1]	—	60⅜-22	36	—
Northrop	267.4	4.22	14.0	62.0[1]	74.5[1]	1.09[1]	.98[1]	2.00	67⅜-24¾	64	3.1
Raytheon	539.9	2.09	8.8	402.8	407.1	1.58	1.18	3% stk.	53⅝-30¼	36	—
Thompson Ramo Wooldridge	420.4	3.13	8.2	313.9	301.3	2.10	1.10	1.40	82⅜-46⅞	64	2.1

*—Based on latest dividend rate.
N.A.—Not available.
d—Deficit.
1—1st 6 months.
2—12 months ended Aug. 31.
3—Pro-forma.
4—Plus stock.
5—1st fiscal quarter.

General Electronics

American Tel. & Tel.: The dominant company in communications. The Western Electric subsidiary is one of the largest and most progressive electronic concerns in the world. Bell Telephone Laboratories is outstanding in research and development and plans to spend $1 billion over the next decade. **A1**

General Electric: Is the world's largest producer of electrical equipment. At this time, uncertainties have been injected into situation by industry-wide suits resulting from anti-trust cases. **A1**

General Telephone: The second largest telephone company. Important producer of electrical products as well as cameras and photo supplies. Earnings relatively stable. **B2**

International Tel. & Tel.: Efforts of new management to improve profitability are showing results. Further gains are anticipated in 1962. **B1**

Radio Corp. of America: Although sales have been in a rising trend, earnings have not shown improvement, due in part to costs connected with electronic data processing equipment. **B2**

Sperry Rand: Since the 1955 merger of Sperry Corp. and Remington Rand, earnings have not kept pace with increasing sales. Recent results held back by data processing division. **B2**

Westinghouse Electric: The second leader in electrical equipment. Recent highly competitive conditions have hurt profit margins. Company also affected by suits arising from anti-trust cases. **B4**

Companies Primarily in Military Work

American Bosch Arma: About 60% of sales were derived last year from government contracts. In recent years results have been highly erratic. **C3**

Avco Corp.: Has successfully readjusted to the requirements of the space age. The company's new stature is being reflected in a rising earnings trend. **B1**

Bendix Corp.: Defense business accounts for 69% of the company's sales. Increasing participation in missile and space fields should be reflected in improved results. **B2**

Collins Radio: Although a leading factor in specialized radio communication equipment and aircraft navigation devices, earnings have been highly erratic in part due to higher costs. **C4**

Garrett Corp.: Manufactures components primarily of a specially engineered type. Commercial and foreign business is increasing in importance. **B1**

Hazeltine: Besides government electronic business, important royalties are derived from numerous radio and television patents. Several promising projects could reach the production stage by mid-1962. **C2**

Hewlett-Packard: Strongest industry position in the rapidly growing electronic measuring and test instrument field. **B1**

Hoffman Electronics: Early this year, TV and phonograph operations were discontinued due to continuing losses, and success of semiconductor operations is problematical. **D4**

Lear: This leading manufacturer of flight control systems has shown strong improvement in profit margins in recent years. **B1**

Ling-Temco-Vought: Successful consolidation of these companies could ultimately yield satisfactory results, as the merged unit is seeking prime contracting capability. **C4**

Microwave Associates: This well managed company has been highly successful in its research and development work. May emerge a leader in the microwave field. **B1**

Northrop: Has made successful transition to electronic devices from manned aircraft in a difficult period. Fairly stable earnings trend. **B2**

Raytheon: Although recent trend has been unfavorable, the management of this large diversified manufacturer anticipates improvement in profit margins early next year. **C2**

Thompson Ramo Wooldridge: Company now fully eligible to compete for new missile and space contracts following divestment of Space Technology Laboratories activities. **B2**

RATINGS:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

Position of Representative Electronic Companies—(Continued)

	1960 Net Sales (Mil.)	1960 Net Per Share	% Net Income To Net Worth 1960	1st 9 Months Net Share 1960 (Millions)	1st 9 Months Net Share 1961 (Millions)	1st 9 Months Net Earnings Per Share 1960	1st 9 Months Net Earnings Per Share 1961	Indic. Current Div. *	Price Range 1960-61	Recent Price	% Div. Yield
COMPONENTS MAKERS											
Amphenol-Borg	$60.3	$1.83	8.0%	$51.1	$53.1	$1.53	$.64	$1.40	58⅝-31	33	4.2%
Fairchild Camera & Instr.	67.9	1.54	13.1	49.4	67.2	1.20	1.51	.50	100⅞-55⅛	68	.7
General Instrument	56.1	1.41	13.0	35.6	40.0	.51	.31	.15	55½-22½	29	.5
General Precision Equ'p.	244.4	3.46	12.1	176.5	171.2	2.10	2.10	1.20	78 -43½	55	2.1
International Rectifier	14.5	.45	11.5	3.3[1]	3.5[1]	.42[1]	.38[1]	—	35⅞-13¼	18	—
International Resistance	20.8	1.40	22.8	17.1[5]	18.2[5]	1.23[5]	1.10[5]	.45	42⅛-18¼	26	1.7
Mallory, P. R.	83.5	2.84	13.4	63.5	62.1	1.93	1.81	1.40[6]	60⅜-33	54	2.5
Texas Instruments	232.7	3.91	21.3	170.1	171.9	2.91	1.77	—	256¼-95	106	—
Transitron	37.0	d.19	—	11.7[1]	8.4[1]	.24[1]	.03[1]	—	60 -16¾	18	—
Tung-Sol Electric	66.4	1.37	5.2	51.6	47.5	1.27	.81	.70	40½-23	24	2.9
Varian Associates	57.9[2]	.73[2]	10.5	N.A.	N.A.	N.A.	N.A.	—	77⅜-38⅛	44	—
INDUSTRIAL & COMMERCIAL											
Ampex	70.1	d.51	—	17.9[1]	17.4[1]	.05[1]	.01[1]	—	42¼-17⅛	20	—
Beckman Instrument	68.5	2.62	12.8	15.8[1]	16.5[1]	.57[1]	.64[1]	—	153½-62½	150	—
Bell & Howell	114.1	1.33	10.2	83.0	80.8	.92	.67	.40[6]	69⅞-37⅝	50	.8
Cenco	21.9	1.39	17.7	12.0[3]	14.1[3]	.82[3]	.85[3]	.40	87¾-31⅛	67	.6
Cutler-Hammer	110.2	3.16	10.5	83.6	85.4	2.55	2.43	2.00	96 -62⅜	77	2.5
Daystrom	92.3	.48	1.5	44.5[3]	41.3[3]	.70[3]	.26[3]	.37	49⅝-25⅛	42	.9
Emerson Electric	125.4	2.74	16.5	94.0	113.7	2.16	2.39	1.00[6]	88¼-32¾	84	1.1
Federal Pacific Elec.	88.2	d2.18	—	22.8[1]	24.0[1]	.06[1]	.33[1]	—	27¾-13¾	14	—
General Controls	40.1	.96	6.5	29.9	27.4	.71	d.19	.20	27 -13¾	15	1.3
Litton Industries	245.0[4]	2.30[4]	15.5	52.1[1]	73.0[1]	.50[1]	.72[1]	2½% Stk.	158½-57⅝	152	—
Minneapolis Honeywell	426.1	3.74	13.1	312.8	333.8	2.62	2.28	2.00	178¾-123⅝	133	1.5
Perkin-Elmer	25.5	1.05	8.1	N.A.	N.A.	N.A.	N.A.	—	83½-26¼	58	—
Standard Kollsman	95.5	1.66	16.7	71.8	76.2	1.10	1.17	3% Stk.	53⅛-12⅝	36	—

*—Based on latest dividend rate.
d—Deficit.
N.A.—Not available.
1—1st fiscal quarter.
2—Year ended 9/30/1961.
3—1st 6 months.
4—Year ended 7/31/1961.
5—42 weeks ended October 22.
6—Plus stock.

Components Makers

Amphenol-Borg: Merger with FXR added to problems of this major manufacturer of connectors, cables and microwave test equipment. C4

Fairchild Camera & Instrument: This leader in high quality semiconductors has only recently felt the effect of price cutting in its lines. B4

General Instrument: Well diversified with 35% of sales semiconductors, 24% military electronics and the balance entertainment and industrial. Earnings adversely affected by semiconductor price cutting. C4

General Precision Equipment: About 80% of volume is to the mi'itary. Sales and earnings have been lower recently but should turn around with backlogs improving. C2

International Rectifier: Is a specialist in certain high quality semiconductor items. Although sales volume is not large, product and customer breakdowns indicate good diversification. C2

International Resistance: This world leader in resistor technology is widening the scope of its operations through new product introduction and stepped-up research. C2

Mallory (P. R.): With a solid base of sales and earnings derived from the communication and appliance industries, the company is broadening its capability through sophisticated product development. B2

Texas Instruments: This leader in the semiconductor field has suffered recently from price cutting in its products. However, capable technology promises ultimate recovery. B4

Transitron: Recovery of this semiconductor company's earning power to the high level of 1960 is open to question. C4

Tung-Sol Electric: This important producer of vacuum tubes has so far failed to keep pace with advancing technology. C4

Varian Associates: Although a leader in microwave tube technology, competition is more intense, and research and development more expensive. B4

Industrial & Commercial

Ampex: There has been little indication as yet that this largest producer of magnetic tape recording equipment has solved its product, organizational or competitive problems. C4

Beckman Instruments: Successful producer of laboratory and electronic equipment. Heavy emphasis on research. B1

Bell & Howell: Company is engaged in the military and industrial electronics, data processing and photographic fields. Actively working with Xerox Corp. on an information retrieval system. A1

Cenco: A leader in supplying such specialized markets as educational institutions, industrial laboratories, and hospitals with scientific equipment. B1

Cutler-Hammer: Leading producer of electric motors. Airborne Instruments Laboratory subsidiary has representation in military electronics. Has well-defined earnings growth. B2

Daystrom: Company has diversified into industrial and military electronics in recent years. An agreement has been reached to merge with Schlumberger Ltd., an aggressive organization. C2

Emerson Electric: This manufacturer of electric motors has achieved rapid sales and earnings growth in recent years partly through increasing military electronics business. Diversification is planned into industrial electronic controls. B1

Federal Pacific Electric: A leading manufacturer of control equipment and capacitors. Reported large deficits recently due to price weakness in major product lines. D4

General Controls: Company is a leading manufacturer of controls for home, industrial and military use. Slack demand and price competition resulted in a recent deficit. C4

Litton Industries: Outstanding growth record due to aggressive internal development, successful acquisitions and managerial ability. The company is now a well diversified and important factor in electronics and office equipment. B1

Minneapolis-Honeywell: High development costs in computer divisicn have temporarily arrested earnings gains for this outstanding growth company. A2

Perkin-Elmer: Occupies a strong position in the specialized areas of infrared and electro-optics technology. B2

Standard Kollsman: Rising earnings trend of recent years due to efficient operation and diversification. B1

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

Exclusive

The Controversial Silver Program

WHY GOVERNMENT'S NEW POLICY WILL NOT GREATLY BENEFIT SILVER PRODUCERS

By CALEB FAY

► **A top specialist in the field tells the story of silver that is both extremely interesting and informative.**

WHEN President Kennedy on November 28 ordered the Treasury Department to discontinue the sale of silver from the Government's free stocks—that is, the amount not needed for currency backing—he took a step that had been clearly foreseen more than a year ago would become inevitable. It was just a matter of simple arithmetic. World demand for silver was outrunning supply. World consumption in 1960 exceeded new production by nearly 117 million ounces. The Government's free silver stocks which had totalled nearly 123 million ounces last January had fallen by mid-November to 32 million ounces, declining roughly nearly 9 million ounces a month during the period. The bottom of the barrel would have been reached early in 1962.

It is a pity that action was not taken earlier. The delay caused the Treasury to permit about 50 million ounces to be sold from its holdings to buyers anxious to add to inventories at a bargain price. They anticipated correctly that the price would rise promptly when the Treasury declined to offer silver at 91½ cents, as it was selling on the open market in Montreal above $1 an ounce. A logical step would have been to put the free stocks earlier into subsidiary coinage at $1.38 an ounce and bid the consumers look for their metal in the open market. It would have resulted in saving the Treasury some $40 million and quite possibly moderated the subsequent rise in the open market price to some extent.

But having made his decision, the President went the whole way. Not only was the Treasury to discontinue sales of free silver but he directed that the Treasury should restrict the use of its remaining reserves for coinage. Silver required for this purpose is to be obtained by retiring from circulation the necessary amount of five and ten dollar silver certificates and substituting for them Federal Reserve notes. This would ultimately free some 500 million ounces for coinage purposes, roughly about a 10-year supply for the Mint for making dimes, quarters, and half dollars.

This part of the program needs no Congressional

Silver Producers With Substantial Per Share Output

	1960 Output (ounces)	Capital Shares	Oz. Silver produced per share	Recent Price	1960 Earnings Per Share	Current Div. per Share*
		I. UNITED STATES				
American Smelting & Ref.	11,700,000	5,447,000	2.1	61	$4.07	$2.00
Sunshine Mining	3,554,000	1,543,000	2.3	13	.19	.20
Bunker Hill	2,700,000	1,583,000	1.7	11	d2.77	—
Shattuck Denn.	796,800	845,000	.9	7	.50	.15
		II. CANADA				
Consol. Mining & Smelt.	8,700,000	16,382,000	5.3	23	1.43	1.00
Noranda	5,500,000	4,480,000	1.2	57	2.81	2.00
Hudson Bay Min. & Smelt.	1,532,000	2,758,000	1.8	51	3.75	3.00
		III. OTHER FOREIGN				
Cerro Corp. (Peru)	15,000,000	3,376,000	4.4	34	3.99	1.10[1]
Fresnillo Co. (Mexico)	5,581,700	1,050,000	5.3	7	d.73	.40
N.Y. & Honduras Rosario	2,500,000	340,000	7.3	53	1.81	1.40
Howe Sound (Mexico)	1,274,600	3,012,000	4.2	15	1.55	[2]

*—Based on latest dividend rate.
d—Deficit.
1—Plus stock.
2—Paid 6% in stock.

approval. But the President's proposals went further.

He expects to ask Congress to repeal the several Silver Purchase Acts, under which the Government must buy domestic silver when offered at 90½ cents an ounce and may sell it to legitimate users at 91½ cents. As a natural corollary there would be repeal of the silver transfer tax, imposed in 1934, to restrain speculation in silver by levying a 50 percent tax on profits from trading in silver by any American citizen here or abroad.

In short, Mr. Kennedy announced bluntly that the new policy will in effect provide for the eventual demonetization of silver except for its use in subsidiary coinage (those sepulchral groans come from the shade of William Jennings Bryan), and provide a broad market for trading in the metal on a current and forward basis comparable to other commodities. Jubilation reigns on the New York Commodity Exchange, where it is planned to resume trading in the metal as soon as the transfer tax is repealed. The Exchange suspended trading in silver in 1934.

The Silver Controversy

It appears likely that Congress will pass the necessary measures to activate the second portion of the program but there is no certainty. For years silver has been the subject of bitter controversy between producers and users. Consumers claimed there was no good reason for the Government to buy silver at a fixed price from the producers and held that the price would fall if it were not for this support. Producers were equally vehement that if it were not for a fixed selling price by the Treasury from government stock the price would rise. Looking at the record it is undoubtedly true that prior to 1955 the open market price for silver was less than the Treasury price, and it is equally true that since then the open market price has closely approximated the Treasury price, and would almost certainly have risen higher had there been no sales by the Treasury.

Each side is pleased by the prospect of a free market but that's as far as they agree. There will be much debate by the silver bloc in Congress on the lack of merit in ending silver backing of paper money, and in spite of their sturdy assertions of a justified higher price for silver, the silver miners have no intention of not playing it safe—they want the Treasury to continue to place a floor under the price at 90½ cents just as it exists today.

The Tug of War

Regardless of political affiliations, in the past the western Congressmen could always be depended upon to rally to the defense of silver when opposed by the representatives of the eastern silver-consuming states. It begins to look now that the lines will be not quite so tightly drawn. Some of the western states, notably California, have now a divided interest—a higher silver price won't help their thriving electronic industries, for instance, which are important consumers of silver. Too, the number of straight silver mines in the west is lamentably small. By far the largest amount of silver is by-product from operations of copper, lead, and zinc mines which are benefitted only indirectly by a higher silver price. And those base metal mines that produce no silver as by-product will not be too anxious to see the output of other metals increased to get the benefit of a larger silver production.

A runaway price advance in silver is highly improbable. While world output has remained virtually static around 200 million ounces annually for the last five years, there are supplies of the metal impossible to calculate that could come on the market at a price. Unknown are the amounts that might be forthcoming from Red China, for centuries a depository for silver. Hard pressed nations might devalue their silver coins, substituting paper or cheaper metals. And as an industrial metal, silver of course is subject to the same ruthless competition and substitution as are other metals when the price is too high. The present price of $1 an ounce is the highest in 40 years, although by comparison with other metals it is not out of line if prices in 1940 are used as a base. Thus copper averaged 11½ cents a pound in that year, now 31 cents, up 170 percent. Silver sold at 34.7 cents an ounce in 1940; hence its advance has been at nearly the same rate.

Looking Ahead

Yet the future looks good for the white metal. Demand for silver will tend to increase with compensating increases in new production, by no means assured, and additional sources of supply will presumably come out only at higher prices and eventually will dry up. The new industrial uses for silver, in aircraft, in brazing alloys, in electronics, are growing here and abroad. As far as new mine production is concerned it will take at least a 25 percent price rise to justify the rehabilitation of hundreds of small silver mines in the west that were profitable with $3 a day labor in the Gay Nineties, but definitely not so under present costs.

In Sum

Unfortunately the speculative public gives scant consideration to such *(Please turn to page 372)*

FOR PROFIT AND INCOME

January

Although year-end strength has in a number of instances petered out early in January, the month as a whole has one of the best records in the year. It has brought some net gain for the industrial average in 40 of the last 64 years, declines in 24 years. Only July, August and December have better records than this. For the rail average, the January score has been: gains in 37 years, losses in 27. An interesting fact here is that only July has a better record for rails. Termination of November-December tax selling has often facilitated technical rallies in rails in January.

This Year

Nobody can say what the January market performance may be this year. But a growing number of experienced analysts figure that the rise in business activity may well begin to flatten out in the 1962 second half; and that the market may top out within the first half, since it is always well ahead of business. Of course, it **could** top earlier than cautious forecasters expect. The view here is that it would be sound strategy to begin taking some profits on January strength and to use it also for reducing or eliminating holdings of dubious stocks. In particular, it might well prove risky to hold any but the top-grade rails much, if any, beyond January.

Another Look

Ford Motor was recommended here in the July 15 issue at 81⅜ and is now at 115. We suggest aiming at taking profits on half of holdings on January strength . . . The same idea is suggested for Singer Mfg., recommended in the June 17 issue at 99 and now at 124 . . . Also for Revlon, recommended in November, 1958, at 20 (adjusted for a split) and currently at 69 . . . In the case of U.S. Tobacco, recommended last May 6 at 30 and now up over 46% to 44, the stock may be about high enough. Sell it on any January strength . . . In the case of other recommendations which have worked out well, we prefer to "wait and see" for a while and would not at the moment plan

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Keystone Steel & Wire	Quar. Sept. 30	$ .85	$ .37
Bohn Aluminum & Brass	Quar. Sept. 30	.31	.12
Champion Papers	Quar. Sept. 30	.55	.36
General Refractories	Quar. Sept. 30	.36	.13
Bestwall Gypsum	Quar. Sept. 30	.65	.50
Carey (Philip) Mfg.	Quar. Sept. 30	1.13	.92
Carpenter Steel	Quar. Sept. 30	.48	.36
Universal Oil Products	9 mos. Sept. 30	.70	.39
Boeing Co.	Quar. Sept. 30	1.24	.74
Grace (W. R.) & Co.	Quar. Sept. 30	.87	.73

any near-term profit taking. This applies, among others, to the following: Burlington Industries, recommended in the July 19 issue at 19 and now at 24; United Carbon, April 22 at 73, now at 82; Spartans Industries, September 6 at 39, currently at 49; Allied Stores, September 23 at 61½, now at 66½; and American Distilling, October 21 at 47 and currently around 54.

Cross-Currents

At this time, performance of the following stock groups is better than average: automobiles, coal, electrical equipment, television-electronics, finance companies, motion pictures, business machines, oils, paper, food stores, steels, bank stocks, sugar, textiles, tobaccos and utilities. Current behavior of the following groups is below average: aircraft, air lines, aluminum, building materials, chemicals, coppers, machinery, department stores, variety stores, metal fabricating, sulphur and tires.

Steel

Following a lag of some weeks, steel operations are beginning to pick up modestly. They are bound to rise further a result of (1) improving sales and output of automobiles and (2) a build-up of steel inventories over the medium term as a hedge against a quite possible mid-1962 steel strike. Yet it is difficult to make out a case for the stocks excepting as short-term speculations on which possible profits would be taxable at full income-tax rates. Who can say where they might be six months hence or shortly before mid-1962? If you get an inventory build-up during the first half, which seems inevitable, you get a second-half let-down, either without a strike or due to a strike. The companies can earn good money at a temporarily high operating rate—but basic profitability and average earning power have been reduced by new competitive conditions under which additions to labor costs cannot be passed along adequately in selling prices, if at all. We would not be surprised to see steel issues sell higher over the short term. But we do not see appeal in them for investors interested in a six-months' play for gains taxable at long-term rates.

Strong Stocks

Stocks reflecting above-average demand at this writing include: Amerada, American Optical, Bayuk Cigars, Beckman Instruments, Best & Co., CIT Financial, Daystrom, Edison Bros. Stores, Family Finance, First National Stores, Ford Motor, General Electric, Food Mart, Gimbel Bros., Great A. & P., Mercantile Stores, National Cash Register, Murphy, Peabody Coal, North American Aviation, Pennsalt Chemicals, Pillsbury, Plymouth Oil, Safeway, Sealright, Stevens, Torrington, Transamerica, T X L Oil, U.S. Industries.

Lagging

Issues performing worse than the market at this time include the following: Air Reduction, Aluminum Company of America, American Machine & Foundry, American Motors, Ceco Steel, Electric Storage Battery, Federal Pacific, International Shoe, Olin Mathieson, Ritter, Kaiser Aluminum, Lehigh Portland Cement, Twin Coach, Ward Baking, Waldorf System and Western Union

Easy?

It should have been easy for you to make money in the market in November—according to the theoretical odds. In a better-than-average performance for a notoriously unreliable month, the Dow industrial average scored a net gain of 17.68 points. But the trouble was that the gain was less than 2.6% and many stocks, as usual, paid no attention to what "the Dow" was doing. About as many lost ground on the month as gained. Were you bullish or bearish on the aircraft group? Well, Boeing went off 1¼ points on the month while Douglas gained 2½ points. In chemicals, du Pont was up 7, Union Carbide off 1⅛. General Electric rose 4¾ points while Westinghouse was down a sizable fraction. Firestone Tire was up 1 point, Goodyear off 1⅛. In the auto group, Ford rose 11⅛ and General Motors 4¾, while Chrysler gave up 7⅝ and American Motors 1⅛. So it went—and so it will go. As regards short-term performance in stocks, you might about as well bet on the horses. What the brokers call a mixed market seems to be here to stay.

Help Wanted

Some people in the U.S. aluminum industry are talking through their hats about stabilizing the market through a cartel set-up to control foreign markets—no doubt while retaining tariff protection, as far as it goes, on imports of aluminum products. There are many things the matter with this idea. One is that it could not, of course, be applied in the U.S., since it would violate the anti-trust laws. Another is that the world biggest producer—Aluminum of Canada—could hardly be expected to "play ball." Meanwhile, the Russians will also keep a finger in this over-production pie that investors now find so distasteful. Sure, consumption is rising, but no matter how fast it does, production keeps several jumps ahead. This has been obvious for a long time, but the financial community has been surprisingly slow to wake up to it. In our book, expanding sales do not make a "growth" industry or company. "Growth" cannot mean anything to the investor unless it is per-share profit growth. It has now been some years since the aluminum companies had it. We continue allergic to aluminum stocks even at present depressed prices. END

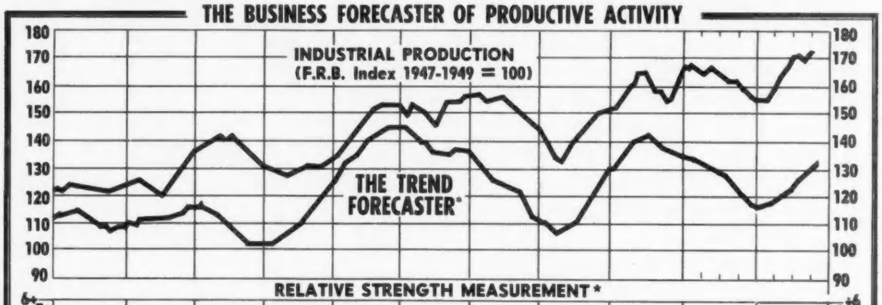
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Consolidated Natural Gas	9 mos. Sept. 30	$2.69	$3.10
Chesapeake & Ohio Rwy.	10 mos. Oct. 31	2.67	4.23
Dan River Mills	39 weeks Sept. 30	.73	1.14
Equitable Gas Co.	9 mos. Sept. 30	1.78	1.93
McGraw-Edison Co.	9 mos. Sept. 30	1.55	1.86
Spiegel, Inc.	Quar. Sept. 30	.26	.61
Trane Co.	Quar. Sept. 30	.26	.72
Anaconda Wire & Cable	9 mos. Sept. 30	.13	.66
Calumet & Hecla	9 mos. Sept. 30	.39	1.13
General Outdoor Advert.	Quar. Sept. 30	.68	.76

the Business

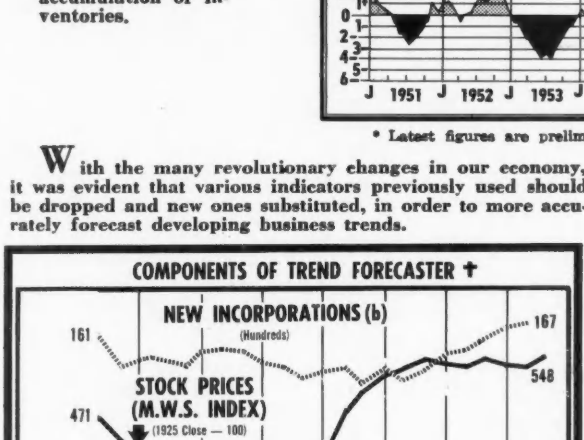
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

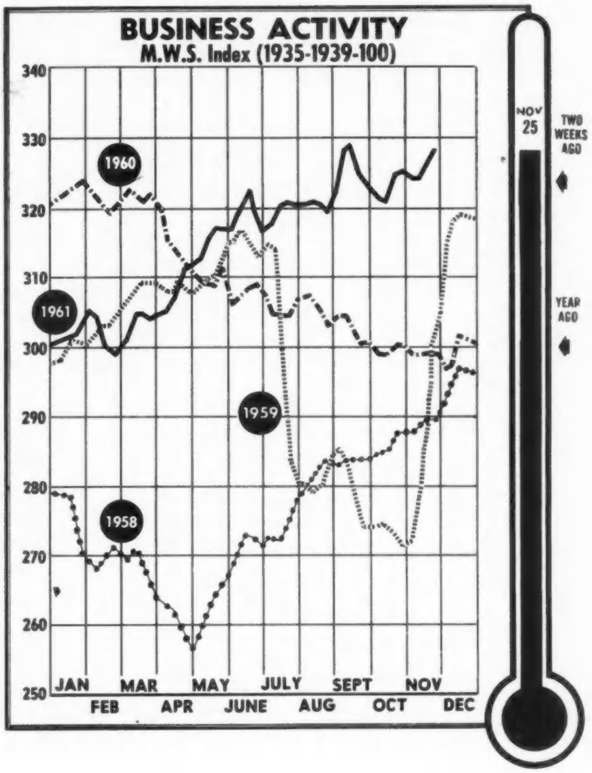
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Few new figures on the components of the Trend Forecaster have been published since our last issue, but some straws in the wind are available regarding the near-term trend of the indicators. Thus a further rise in new orders for durables appears to have taken place in November, judging by the National Association of Purchasing Agents report that 35% of its members had higher incoming orders last month while only 13% suffered declines. From present indications, the MWS stock price Index will be up in December from its November average of 548 and raw industrial commodity prices, which fell sharply last month, have shown decided improvement in early December.

On the basis of estimated intermediate trends for the indicators, the Relative Strength Measure was off slightly in November to the plus 2.3 level. Thus far, the Measure has risen less sharply than at the similar point in other recoveries. If no marked improvement occurs in the near future it may well foreshadow an exceptionally mild upturn.

Analyst



CONCLUSIONS IN BRIEF

PRODUCTION — Industrial output continues to move ahead, buoyed by near-record auto assemblies, improving steel activity and gains in many other industries. Sizable gains in steel output ahead, but increases in over-all output will probably be moderate.

TRADE—Consumers are in a buying mood, with soft goods, appliances, TV, all making good gains, and auto sales at a record high for period. Further gains expected in early 1962 but at more moderate pace.

MONEY & CREDIT—Bond prices have continued to decline in recent weeks, under such influences as higher interest rates on savings in commercial banks and forecast of business improvement (which would involve increased demand for loans). Fixed income securities may also be adversely affected by continued deficit in our balance of payments, which might eventually force the Federal Reserve to tighten credit.

COMMODITIES—Sensitive commodity prices finally moving higher, after long downtrend. Wholesale prices remain sluggish but the more representative "price deflator" used by the Commerce Department has been rising steadily. Further gains in broad price indexes expected in the months ahead.

THE economic outlook still looks promising as we approach the end of 1961. Business activity continues in an upward trend, and the preponderance of constructive underlying forces point to further gains in the months ahead.

Such major indicators as new orders, personal income, business investment and government spending are providing the broad base for continued near-term improvement in business. Although gains from here on are apt to be moderate in most instances, predictions of further recovery through at least the first half of 1962 appear to be warranted from the evidence at hand.

New orders, the mainspring of manufacturing activity, rose to a new high in October, $400 million above September and $900 million above shipments. A further gain appears to have taken place in November, judging by the report of the National Association of Purchasing Agents, which shows that the number of firms reporting increases in orders last month outnumbered those reporting declines by almost three to one. With new orders sprinting ahead of shipments, order backlogs have been rising steadily and now stand $2.2 billion above the recession low reached early this year. Although some order backlogs have a long lead time and may not contribute to business activity immediately, the general increase in backlogs should, nevertheless, provide momentum for continued economic recovery.

Personal income has also reached new peaks. The rise in October was a sizable $3.9 billion and was

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Oct.	172	169	161
Durable Goods Mfr.	1947-'9-100	Oct.	175	172	164
Nondurable Goods Mfr.	1947-'9-100	Oct.	169	168	159
Mining	1947-'9-100	Oct.	131	129	128
RETAIL SALES*	$ Billions	Oct.	18.6	18.1	18.5
Durable Goods	$ Billions	Oct.	5.9	5.6	6.1
Nondurable Goods	$ Billions	Oct.	12.7	12.6	12.5
Dep't Store Sales	1947-'9-100	Oct.	151	150	148
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	32.7	32.3	29.2
Durable Goods	$ Billions	Oct.	16.2	15.8	13.7
Nondurable Goods	$ Billions	Oct.	16.5	16.5	15.5
Shipments*	$ Billions	Oct.	31.8	31.4	29.6
Durable Goods	$ Billions	Oct.	15.4	15.0	14.1
Nondurable Goods	$ Billions	Oct.	16.4	16.4	15.5
BUSINESS INVENTORIES, END. MO.*	$ Billions	Oct.	93.0	92.7	93.0
Manufacturers'	$ Billions	Oct.	54.8	54.4	54.4
Wholesalers'	$ Billions	Oct.	13.5	13.5	13.2
Retailers'	$ Billions	Oct.	24.5	24.7	25.4
Dept. Store Stocks	1947-'9-100	Sept.	170	169	167
CONSTRUCTION TOTAL—†	$ Billions	Nov.	59.5	58.9	56.1
Private	$ Billions	Nov.	42.4	41.8	39.6
Residential	$ Billions	Nov.	24.7	24.0	22.0
All Other	$ Billions	Nov.	17.7	17.8	17.6
Housing Starts*—a	Thousands	Oct.	1442	1380	1236
Contract Awards, Residential—b	$ Millions	Oct.	1499	1620	1390
All Other—b	$ Millions	Oct.	1792	1620	1929
EMPLOYMENT					
Total Civilian	Millions	Oct.	67.8	67.0	67.5
Non-farm*	Millions	Oct.	54.6	54.4	54.3
Government*	Millions	Oct.	9.0	8.9	8.9
Trade*	Millions	Oct.	11.5	11.4	11.4
Factory*	Millions	Oct.	12.1	12.1	12.2
Hours Worked*	Hours	Oct.	40.1	39.5	39.5
Hourly Earnings	Dollars	Oct.	2.35	2.33	2.27
Weekly Earnings	Dollars	Oct.	94.71	92.50	90.12
PERSONAL INCOME*	$ Billions	Oct.	425	421	406
Wages & Salaries	$ Billions	Oct.	287	284	273
Proprietors' Incomes	$ Billions	Oct.	62	61	61
Interest & Dividends	$ Billions	Oct.	42	42	41
Transfer Payments	$ Billions	Oct.	33	33	30
Farm Income	$ Billions	Oct.	17.5	17	17
CONSUMER PRICES	1947-'9-100	Oct.	128.4	128.3	127.3
Food	1947-'9-100	Oct.	120.9	121.1	120.9
Clothing	1947-'9-100	Oct.	111.4	111.1	111.0
Housing	1947-'9-100	Oct.	132.7	132.6	132.2
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Oct.	143.8	142.2	139.9
Bank Debits*—g	$ Billions	Oct.	104.0	100.2	95.4
Business Loans Outstanding—c, u	$ Billions	Oct.	31.9	31.9	31.6
Instalment Credit Extended*—u	$ Billions	Oct.	4.3	4.0	4.1
Instalment Credit Repaid*—u	$ Billions	Oct.	4.2	4.1	4.0
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	3.1	8.9	2.8
Budget Expenditures	$ Billions	Oct.	7.8	6.8	6.8
Defense Expenditures	$ Billions	Oct.	4.1	3.8	3.7
Surplus (Def) cum from 7/1	$ Billions	Oct.	(7.1)	(2.4)	(5.2)

PRESENT POSITION AND OUTLOOK

broadly diffused among income recipients. Disposable income is now almost $20 billion above the February 1961 low, the best of all stimulants for increased consumer demand. This is the main reason why retail sales spurted in October and are continuing to move ahead at present. Increased spending for services will absorb part of the increase in income, but the improvement will also be felt in demand for goods. In fact, consumers are now in a much more optimistic frame of mind and increased their buying on instalment credit by $326 million in October, the biggest jump in credit purchasing since early 1960. Buying of autos last month was at the highest level for any November on record, with a good part of the cost, no doubt, payable on instalment as usual. The uptrend in credit buying has just started and if it follows its normal course, it should continue to increase for some time.

Private domestic investment, the most volatile component of the gross national product, has risen strongly—from a first quarter low of $59.8 billion to $73.2 billion in the third quarter—and it appears to be heading still higher, although the pace of advance should be more gradual in the months ahead. Businessmen are planning moderate increases in capital outlays in 1962 and these plans are being fleshed out by rising contracts and orders for plant and equipment and by increased appropriations for this purpose. Although the modest gains in these precursors of actual capital outlays point to only a moderate rise in capital spending, implementation of the Administration's program for higher depreciation allowances to business could put expansion plans into high gear.

Inventory investment, which was rising at a $4.5 billion annual rate in the third quarter, is doing no more than maintaining this rate of gain at present. However, a sharp pick-up in stockpiling of steel appears to be in the offing, as a protection against a possible steel strike when labor contracts expire at the end of June, 1962. This could make for a sharp temporary rise in total inventory investment.

Construction activity also

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter III	1961 Quarter II	1961 Quarter I	1960 Quarter III
GROSS NATIONAL PRODUCT	526.0	516.1	500.8	505.1
Personal Consumption	342.0	336.1	320.7	329.7
Private Domestic Invest.	73.0	68.8	59.8	70.5
Net Exports	2.5	3.9	5.3	3.0
Government Purchases	108.5	107.3	105.0	101.9
Federal	56.9	56.6	54.7	54.0
State & Local	51.6	50.6	50.3	48.0
PERSONAL INCOME	420.3	413.2	404.7	405.1
Tax & Nontax Payments	52.5	51.5	50.4	50.8
Disposable Income	367.8	361.8	354.3	354.4
Consumption Expenditures	342.0	336.1	330.7	329.7
Personal Saving—d	25.8	25.8	23.7	24.6
CORPORATE PRE-TAX PROFITS		45.2	39.6	43.2
Corporate Taxes		22.4	20.0	21.7
Corporate Net Profit		22.4	19.6	21.4
Dividend Payments	14.3	14.2	14.2	14.1
Retained Earnings		8.6	5.8	7.6
PLANT & EQUIPMENT OUTLAYS	35.9	34.8	33.9	35.9

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 25	327.8	325.9	298.0
MWS Index—Per capita*	1935-'9-100	Nov. 25	231.5	230.2	214.6
Steel Production Index*	1957-'9-100	Nov. 25	109.1	109.3	73.4
Auto and Truck Production	Thousands	Dec. 2	200	156	167
Paperboard Production	Thousand Tons	Nov. 25	332	345	271
Paperboard New Orders	Thousand Tons	Nov. 25	292	332	262
Electric Power Output*	1947-'49-100	Nov. 25	302	301	272
Freight Carloadings	Thousand Cars	Nov. 25	495	591	471
Engineerings Constr. Awards	$ Millions	Nov. 30	450	305	385
Department Store Sales	1947-'9-100	Nov. 25	184	180	173
Demand Deposits—c	$ Billions	Nov. 22	62.6	62.8	N.A.
Business Failures—s	Number	Nov. 23	238	308	276

PRESENT POSITION AND OUTLOOK

reached new highs in November, with residential building in the lead. The Commerce Department is predicting further construction gains in 1962, but the recent course of contract awards indicates that improvement may be minimal.

There is nothing restrained about government spending however. Federal cash payments to the public in the third quarter of this year were at an annual rate $10 billion above the corresponding 1960 period, and an increase in the rate of expenditure is predicted for next year, unless the foreign situation takes a decided turn for the better. Spending by state and local governments has also been in a strong uptrend and no early turn in the rising tide of these expenditures is in sight.

From the foregoing review of business prospects, it appears that fundamental conditions are propitious for further moderate gains in general business activity. Special developments, however, could add temporary impetus to the advance, but only at the expense of later contraction. Thus, the usually volatile inventory sector has acted

(Please turn to page 371)

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1961 High	1961 Low	1961 Nov. 24	1961 Dec. 1
Composite Average	554.4	454.7	551.6	554.4H
4 Agricultural Implements	497.2	389.3	416.2	397.0
3 Air Cond. ('53 Cl.—100)	176.9	124.9	158.3	162.0
10 Aircraft & Missiles	1393.5	1114.8	1243.4	1232.7
7 Airlines ('27 Cl.—100)	1163.6	854.4	943.9	952.0
4 Aluminum ('53 Cl.—100)	465.6	329.1	329.1	325.1
5 Amusements	427.0	312.5	358.9	362.0
5 Automobile Accessories	503.9	418.6	475.5	479.6
5 Automobiles	129.8	92.6	126.2	127.1
3 Baking ('26 Cl.—100)	44.6	37.4	41.4	41.0
4 Business Machines	2229.8	1317.0	2099.4	2229.8H
6 Chemicals	887.1	745.5	849.9	842.4
3 Coal Mining	42.5	29.8	41.3	41.9
4 Communications	257.6	220.5	257.6	253.2
9 Construction	242.0	177.7	231.8	233.5
5 Container	1135.0	883.7	1117.7	1109.0
5 Copper Mining	399.3	291.9	341.5	352.5
2 Dairy Products	263.0	201.9	263.0	259.0
5 Department Stores	235.6	151.0	235.6	232.5
5 Drugs-Eth. ('53 Cl.—100)	489.0	387.3	489.0	477.3
5 Elect. Eqp. ('53 Cl.—100)	419.7	326.8	419.7	419.7
3 Finance Companies	1220.1	802.7	1163.7	1220.1H
5 Food Brands	936.8	557.0	920.0	886.6
3 Food Stores	353.8	255.	341.1	353.8H

(Nov. 14, 1936 Cl.—100)	High	Low	Nov. 24	Dec. 1
High Priced Stocks	353.4	288.5	353.4	353.8
Low Priced Stocks	729.8	578.6	699.7	710.4
5 Gold Mining	1226.0	930.4	1072.7	1116.5
4 Investment Trusts	173.5	144.1	169.3	165.1
3 Liquor ('27 Cl.—100)	1548.9	1208.6	1431.5	1431.5
7 Machinery	647.3	506.2	579.2	569.4
3 Mail Order	498.3	409.2	486.1	478.0
4 Meat Packing	313.9	262.0	295.7	300.9
4 Mtl. Fabr. ('53 Cl.—100)	483.4	352.5	459.9	483.4
9 Metals, Miscellaneous	208.6	147.4	175.5	175.5
4 Paper	1158.9	952.6	1109:8	1129.4
16 Petroleum	828.6	714.3	750.0	771.4
16 Public Utilities	528.4	400.3	528.4	528.4
6 Railroad Equipment	111.7	83.8	106.8	103.7
17 Railroads	61.8	52.9	59.7	59.7
3 Soft Drinks	1171.6	946.7	1143.5	1124.8
11 Steel & Iron	424.3	359.8	376.7	386.9
4 Sugar	90.4	74.0	90.4	88.4
2 Sulphur	874.7	705.4	740.7	740.7
11 TV & Electron. ('27—100)	133.3	98.5	133.3	133.3
5 Textiles	268.1	198.2	268.1	266.2
3 Tires & Rubber	248.0	184.6	237.1	231.7
5 Tobacco	371.8	231.8	371.8	367.2
3 Variety Stores	427.1	356.5	420.1	427.1H
16 Unclassifd (49 Cl. — 100)	337.7	241.5	297.8	307.2

H—New High for 1961.

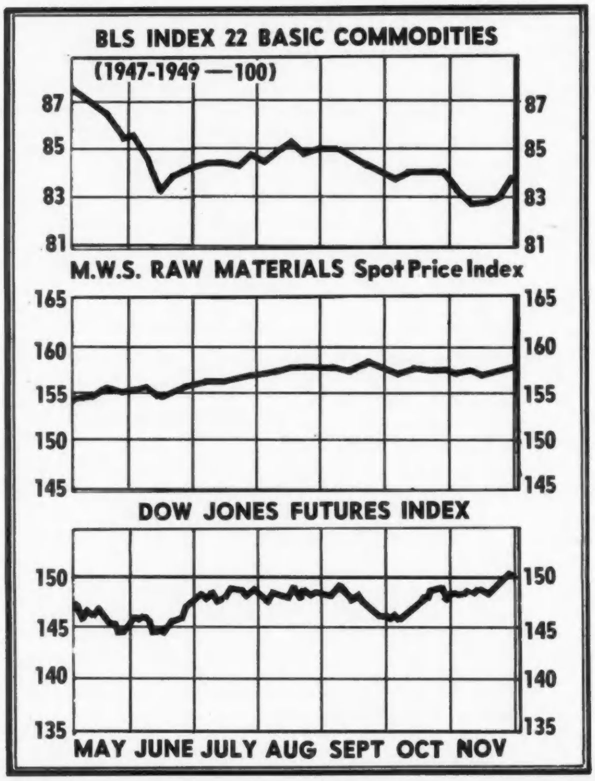
Trend of Commodities

SPOT MARKETS—Sensitive commodities showed improvement in the two weeks ending December 1, with foods, metals, livestock products and fats and oils all moving higher on balance. The BLS daily index of 22 leading commodities rose 1.5% and the industrial materials component was up 1.2%. In the latter category, hides, tallow, and zinc improved while tin and wool tops were lower.

Among the broad range of commodities, changes were narrow. The BLS wholesale price index continued its narrow movements, losing a minimal 0.1%. This comprehensive index has remained stable since 1957, but the index used by the Commerce Department to "deflate" the GNP for price changes, has risen strongly during the same period. This more representative index, which also includes services, indicates that inflation is still an ever-present danger.

FUTURES MARKETS — Commodity futures followed divergent trends in the fortnight ending December 1. A good many commodities showed no clear trend and price changes were moderate in most cases. Cocoa was an exception, rising sharply during the period. Other gainers included coffee, hides, and rice, while corn, rye, lard, cotton and rubber were lower. Commodities that lacked clear-cut direction included wheat oats, soybeans, wool and copper.

Wheat futures remained in a relatively narrow range during the period. The old crop options were somewhat higher while new crop futures were unchanged to slightly lower. Old crop prices are above loans levels, and as a result, impoundings in the support program are well below a year ago. This could put downward pressure on prices, later in the season.



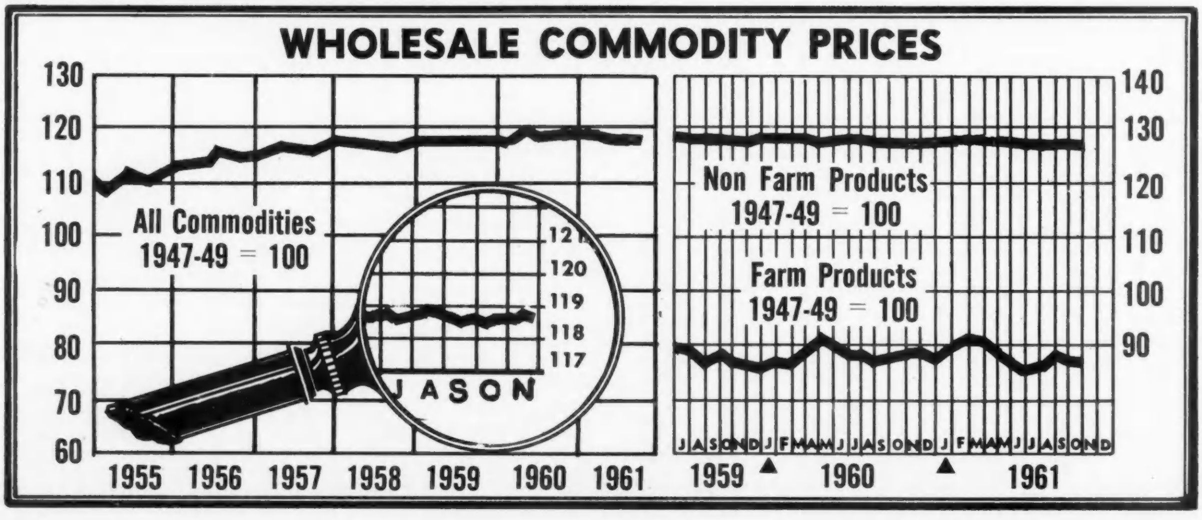
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 28	118.8	118.9	119.6	60.2
Farm Products	Nov. 28	86.7	87.4	89.9	51.0
Non-Farm Products	Nov. 28	127.5	127.6	127.9	67.0
22 Sensitive Commodities	Dec. 1	83.9	82.6	83.2	53.0
9 Foods	Dec. 1	76.8	75.3	75.9	46.5
13 Raw Ind'l. Materials	Dec. 1	89.1	88.0	88.6	58.3
5 Metals	Dec. 1	91.1	89.2	88.1	54.6
4 Textiles	Dec. 1	84.3	84.3	81.1	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	150.3	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



Electronics Industry

(Continued from page 357)

growth. However, tape recorders, phonograph records, pre-recorded magnetic tape, home intercoms, citizens-band broadcasting equipment, and consumer electronic kits could achieve gains of 50 to several hundred per cent.

Among the components, semiconductors should show gains beyond the present year, while tubes should show a flat trend, except for certain high power tubes such as traveling-wave tubes, backward-wave tubes and klystrons.

Why the Blanket Approach Is No Longer Valid

It is therefore evident that an electronics company is not necessarily a growth company. Those concerns in the wrong branch of the business will find growth unattainable, unless they have the ability to enlarge their share of the market. **Tung-Sol,** for example, a major manufacturer of vacuum tubes, earned $3.1 million or $3.31 per share, in 1957, on sales of $64 million. Last year, on sales of $66.4 million, its earnings fell to $1.5 million or $1.37 per share. Output of vacuum tubes stopped growing when low-priced semiconductors reached the market. In an attempt to increase their share, most makers cut prices. Tung-Sol didn't neglect semiconductors—its Chatham Division, acquired in May 1957, produces transistors—but they simply don't represent much of its business.

Even representation in markets that are growing does not necessarily insure growth in profits. Price-cutting in transistors completely eliminated profits for some companies in this business. Certain marginal producers have already quit this area. Stock prices of companies important in this business such as **Texas Instruments, Transitron** and **General Instrument** have already suffered deep declines.

Technological supremacy doesn't guarantee continued success either, especially when a company becomes complacent. **Ampex,** long considered the leader in magnetic tape recording equipment, suffered a deficit of $4 million in fiscal 1961, after reporting a profit of $4 million the prior year. The company grew accus-

Position of Representative Electronic Companies—(Continued)

	1960 Net Sales (Mil.)	1960 Net Per Share	% Net Income To Net Worth 1960	1st 9 Months Net Share 1960 (Millions)	1st 9 Months Net Share 1961 (Millions)	1st 9 Months Net Earnings Per Share 1960	1st 9 Months Net Earnings Per Share 1961	Indic. Current Div. *	Price Range 1960-61	Recent Price	Div. Yield %
BUSINESS MACHINES											
Addresograph-Multi.	$162.3	$1.89	14.2%	$159.2[1]	$164.0[1]	$2.01[1]	$1.81[1]	$.90[2]	109¼-53½	96	.9%
Burroughs	387.4	1.39	7.3	287.3	282.3	.93	.83	1.00	40⅜-26¼	39	2.5
International Bus. Mach.	1,436.0	6.12	17.2	1,040.5	1,244.5	4.34	5.55	2.40	607 -272	580	.4
National Cash Reg.	457.8	2.52	11.2	315.7	361.7	1.53	1.69	1.20	142 -49⅞	138	.8
Pitney-Bowes	67.5	1.32	16.4	48.5	55.0	.90	1.03	.72	68¼-29¼	63	1.1
CONSUMER & ENTERTAINMENT											
Admiral Corp.	187.8	d1.04	—	144.9	135.8	.21	.58	—	23⅞-10	18	—
Emerson Radio	63.7	.80	6.1	N. A.	N. A.	.70	.50	3% stk.	22⅛-10½	13	—
Magnavox	124.8	.92	20.2	78.8	89.2	.50	.61	.50	48⅜-10⅝	44	1.1
Motorola	299.0	3.14	13.0	224.8	207.7	2.43	1.59	1.00	100 -60½	79	1.2
Packard Bell	44.0	.26	1.9	34.7	24.6	.61	d4.73	—	39 -12¼	13	—
Siegler	96.2	1.20	7.8	24.2[1]	28.0[1]	.42[1]	.45[1]	.40[2]	43 -22⅜	25	1.6
Zenith Radio	254.1	1.70	17.2	183.9	187.7	.96	1.10	1.16	82¾-29¾	76	1.5

*—Based on latest dividend rate.
N.A.—Not available.
d—Deficit.

1—1st fiscal quarter.
2—Plus stock.

Business Machines

Addressograph-Multigraph: Occcupies a leading position in specialized segment of the office equipment field. Machines are designed to mechanize repetitive writing, accounting and statistical data. **B2**

Burroughs Corp.: Manufacturer of general business machines and electronic data processing equipment. About 25% of sales from military business. Longer term outlook favorable. **B1**

Int'l. Bus. Mach.: Outstanding growth record. Recent rate of earnings improvement aided by substantial increase in outright sales of equipment, instead of rentals, which spread the profit out over a period of years. **A1**

National Cash Register: Company has efficient world-wide service organization to support its position as a manufacturer of business machines. New 304 and 390 computers achieving great success. **A1**

Pitney-Bowes: The world's largest manufacturer of postage meters and related equipment. Products of a recently acquired foreign concern, which supplement the company's lines, will eventually be introduced here. **B1**

Consumer and Entertainment

Admiral Corp.: Manufacturer of radios, TV sets and appliances. Recent report suggests that some efficiencies have been effected. **C3**

Emerson Radio: This well-known manufacturer of TV, radio and phonograph sets and air conditioners has been placing considerable emphasis on expanding its military and industrial electronics business. **C2**

Maganavox: Producer of quality consumer items. Has achieved outstanding earnings growth in recent years. **A1**

Motorola: In addition to having a leading position in consumer electronics, the company is important in various sophisticated industrial markets. **B3**

Packard Bell: Manufacturer of entertainment and military electronic items. Declining sales and high costs on government contracts have resulted in a large deficit. **C4**

Siegler Corp.: Aided importantly by a sharp build-up in military electronics business, a worthwhile improvement in earnings may be witnessed in coming months. **C2**

Zenth: Company's outstanding record of earnings growth due largely to concentration on quality products and strong distribution network. **A1**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

tomed to sales gains of 50% annually, and the absence of competition for its important TV recorder. When competition appeared from **RCA** and a Japanese company, and sales levelled off, Ampex was unprepared.

How Does the Investor Choose?

Money—always important and highly fluid—will become as important as technological leadership and effective marketing in the future. **Any area of business which gives a company a high return on investment invites competition by others.**

In 1950, **IBM** earned 23% on its stockholders equity. In 1960, including earnings of IBM World Trade Corp., it earned 21%.

► Meanwhile, **Sperry Rand** and **Burroughs** have spent enormous sums to get into the computer business. Sperry earned 7.5% on investment last year, Burroughs earned 7.3%. This does not appear to be effective use of capital.

► **Addressograph,** a specialist, makes a higher 14.3% on investment, just as **Pitney-Bowes,** another specialist, makes 15.8%. But there are large sums to be invested in competition with these leaders, and other companies may be satisfied with less than 23% or 15% on their money.

RCA, General Electric and other companies of similar stature need an outlet for their funds. Another giant, IBM, at the 1960 year-end, had $320 million in cash, vs. $68 million in 1956. This will not lie idle for long. The suppliers to IBM are in a perilous position.

Can Growth Be Maintained — And How Much Is It Worth?

Of course, the technical leader in a field, who is two years ahead of competition and continues to keep his lead, may still achieve good growth. But even **Varian Associates** is finding it expensive to keep ahead of competition. Leadership is difficult to maintain.

The price-earnings ratio is at the heart of the problem. Should the investor pay 50X earnings for **Litton Industries,** 80X earnings for **IBM,** 50X for **National Cash Register;** or should he look for the depressed marginal company selling at book value and 15X earnings? This decision is really up to the individual. Lewis Gilbert, the corporate "gadfly," has been highly successful in the latter method of investing, but nearly every major mutual fund has purchased IBM despite its lofty earnings multiple.

Some Criteria To Be Applied

The investor should measure the following factors in deciding on an investment in the electronics industry.

1) Is the company's sales mix primarily in growth areas?
2) Are its prices competitive with similar quality products of others?
3) Is the company a technological leader in an important area?—how far ahead is it?—how expensive might it be for someone else to overtake it?
4) How effective are its sales people—sales per man compared to others in similar area?
5) How efficient is its plant?
6) How high is its return on equity?
7) How wide are its profit margins — could it withstand much price-cutting before going into the red?
8) How effective is its research and engineering?
9) Is there a breadth in management—including a good engineer, a good financier, and a good merchandiser?
10) **Is the return on invested capital constant, improving or declining**—this statistical measurement is often the first sign of slowdown, maturity or deterioration. A

company with a declining rate of return on capital is finding growth more expensive, more difficult.

The answers to all the questions above will not be easy to find. But, insofar as possible, the investor must be studious—and careful. The rewards will be great, the pitfalls disastrous. END

The Business Analyst

(Continued from page 367)

more sedately of late, as a result of improved methods of correlating stockpiles to sales, as well as recent price stability, which removes most of the incentive for a speculative build-up of stockpiles. The deficit in the nation's balance of payments, moreover, makes a policy of price stability virtually mandatory if we are to avoid a fatal weakening of the dollar. Stockpiling in anticipation of a steel strike, however, could raise inventories to unwarranted levels, with an inevitable contraction taking place when the emergency is over. Capital spending may also be stimulated by more flexible depreciation allowances, but if this leads to a burst of expansion that causes capacity to outrace demand, then the inevitable day of reckoning will have to come. The rule for the months ahead seems to be that an over-rapid rise in business activity will appreciably shorten the duration of the recovery. END

Choosing Canadian Bank Stocks For Diversification

(Continued from page 336)

dividend records during this period. Earnings per common share of the Royal Bank increased from $2.59 to $2.94 between 1955 and 1960; earnings of the Bank of Montreal from $1.79 to $2.34, and those of the Bank of Nova Scotia from $2.33 to $2.95 during the same period.

Dividend rates on the Royal Bank rose from $1.00 a share in 1951 to $2.37 in 1960; on the Bank of Nova Scotia from $1.60 to $2.30; the Bank of Montreal from $1.45 in 1955 to $2.00 in 1960.

Canadian Banks Remain "Canadian"

These institutions still have great growth potentials, provided present economic conditions in Canada continue. One of their most favorable features is their nearly complete control of the Canadian banking field. Outside of the "Big Five," only two or three much smaller banking institutions in Canada are worth mentioning; these include La Banque Canadienne Nationale, the Montreal City and District Savings Bank, and the Provincial Bank of Canada in Montreal, whose operations are chiefly confined to the provinces of Quebec and New Brunswick. The Big Five have little to fear from competition from new rivals, either at home or abroad. Under present conditions, the launching of a new large bank in Canada with resources approaching those of the Big Five would be a very difficult operation indeed. And despite the great flow of American and European capital into many forms of enterprise in Canada during the past decade, this invasion has not spread into the banking field. The great Canadian banks are still to

a large extent controlled by native Canadian interests and, indeed, are much more purely Canadian in their ownership than many other large industries in that country.

If general economic conditions in Canada experience a slight revival over the next two or three years, and if the foreign trade picture improves as unemployment declines, the general outlook for these institutions is a decidedly favorable one. END

Why Government's New Policy Will Not Greatly Benefit Silver Producers

(Continued from page 361)

facts. The sensational rise in silver stocks during the year appears to have been based on over-generous appraisal of profit potentials of the handful of developed silver producers. The numerous penny stocks of silver prospects listed on the western exchanges have found a host of buyers who have apparently forgotten their expensive experience a few years ago in uranium issues. With present wage scales for miners and the cost of supplies, it needs a lot of luck to make a profit from a silver prospect that was abandoned 80 years ago, even with $1 silver, and it should be remembered that the old-time silver miners did not overlook many good silver prospects. Enthusiasm over the "New Look" in silver should not overshadow caution, to avoid the same fate as those ardent speculators who bought such glamour metals as uranium, titanium, lithium, or beryllium. These metals also enjoyed an exciting price rise before settling down to a more realistic appraisal. END

What Needs To Be Done To Solve Our International Trade And Dollar Position

(Continued from page 333)

this country and not add to the problem we now face in our balance of payments deficit.

Do We Have the Fortitude to Face Reality?

At this critical time we need to face reality. We must recognize the importance of a strong, vigorous U. S. economy as a bulwark of the Free World, and take the necessary steps to maintain our strength.

• **To this end we should above all avoid further government deficits and monetary inflation. Only by displaying the kind of monetary integrity and fiscal responsibility which we for so long have preached to others can we hope to prevent further loss of confidence in the dollar and the probability of a run on gold.**

• **Secondly, we must reshape our foreign trade policies. Any continued foreign aid should be in terms of goods, for which we have excess capacity, not in dollars. We will need to maintain orderly markets for our domestic production to safeguard jobs, until we can adjust to the point that we are again competitive. We must maintain a sound footing ourselves if we wish to remain the pivot man in the Free World.** END

The Eigthy-Seventh Congress

(Continued from page 339)

ket, there is no small segment of the Congress, particularly in the Lower House, which will fight for restoration of the Congressional prerogatives in the area of tariffs, primarily for the defense of American industries that cannot compete with the low labor costs extant in foreign countries.

This writer very definitely does not see the President's international trade program getting Congressional approval. Foreseen is a tightening of import quotas and tariff hikes for foreign products that threaten U. S. manufacturers. Domestic pressures on the legislators are, even now, "terrific," and they will get higher in January.

► Labor legislation — revision of Taft-Hartley and Landrum-Griffin Acts — is "not in the cards." This is more or less openly admitted by AFL-CIO brass which says that the House of Labor must expend its energies next year, through political action, to elect a more liberal Congress. In short, a National Legislature that would be subservient to the bosses of Labor. At this moment, there is no indication that the Solons have any fear. They may even go so far as to strike the union shop clause out of Taft-Hartley. This, however, is on the remote side—very remote. Of a certainty, Section 14(b) of the Act permitting the individual states to bar the union shop, will be unscathed.

► Defense spending, including the so-called "moon shot," will mount. Just what the President will ask for the two is presently moot, but Congress will comply with both programs, insisting, however, that Defense include provisions to get production of the super-sonic B-70 bomber under way, plus stepped-up production of atomic powered Polaris-bearing submarines.

► A major blunder of the First Session was the farm bill, often referred to as the feed grain measure. It was an Administration proposal that would, according to Mr. Kennedy and Secretary of Agriculture Orville L. Freeman, cost $750 million *less* than the soil bank program of the Republicans, but preliminary reports from Congressional and Departmental sources indicate that it will cost about $1.2 billion *more*.

► Like other New Frontiers legislation, the feed grain bill was passed through the efforts of former Speaker Rayburn and other Democratic loyalists, whose loyalty was often greater than their private convictions. Unfortunately, it may stay "on the books" for another year. Farmers are prospering under it while the rest of the populace suffers the costly burden, but it is not likely that in an election year Congress will do anything to displease the grossly over-estimated farm vote.

In Sum

During the First Session of the 87th, President Kennedy fared well—primarily because of the leadership of his Party on Capitol Hill in the person of the now deceased Speaker Sam Rayburn of Texas. The House wasn't exactly docile in the hands of "Mr. Sam," but he usually managed to bend it to the will of the White House.

Rayburn was a genius at holding the warring factions of the Democratic Party in line, while his influence with the Republicans was greater than most of us realize. Now that Rayburn has

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departed the Capitol scene, the House will be less than docile—left and right factions of the Democratic Party will go their separate ways. This can very well prove close to disastrous to Mr. Kennedy's New Frontiers brand of Socialism.

The Texan was adroit, loyal to the man in the White House to the point that he often went to bat for Presidential measures that he privately believed to be unwise. This is not said in criticism of Rayburn's patriotism, but to point up that he was a power that will be missed when the Second Session of Congress gets under way.

Most likely successor to Mr. Rayburn as Speaker now seems to be Rep. John W. McCormack, a Boston Irish Catholic Democrat who does not see eye to eye with President Kennedy, also a Boston Irish Catholic Democrat. The Boston Congressman, through his stand against Federal aid for school construction and teacher pay unless private and parochial schools were included, angered the President and bad blood will prevail during the coming Session.

Further, McCormack lacks the political "savvy" that was Rayburn's; he simply will not be able to fuse the differing Democratic factions of the House into a homogeneous whole that will go down the line for White House proposals. All of this makes it difficult for the seasoned Washington observer to make accurate and specific predictions of what may be expected in the Second Session, other than to say that the New Frontiers program will not fare so well next year. END

More Growth Ahead For Food Companies As They Move Into Huge Foreign Markets?

(Continued from page 355)

derives more than $250 million in sales abroad, 36% of last year's consolidated volume It has an excellent position in both the Common Market and Outer Seven. In South America, plants are located in Argentina, Brazil, Chile, Colombia, Mexico and Uruguay, and others are in Japan, the Philippines and South Africa. As the world's largest corn refiner the company continues to add consumer products, including those taken over upon the merger with Best Foods in 1958. Last year consumer products contributed 44% of total volume, industrial products 51%, and by-products 5%. The stock, split 2 for 1 this year, has a record of consistent growth behind it with very little cyclical influence, but sells at a liberal 33 times earnings and yields only 1.9%.

General Foods (101). Largest in the packaged foods fields, the company is known for such brands as Maxwell House Coffee, Jell-O Pudding, Swans Down Flour, and Birds Eye frozen foods. Aggressive promotion abroad has helped earnings this year, and net for the year ended March 31, 1962, will approximate $2.85 per share vs. $2.69 last year. As a growth stock of high quality, G. F. sells at 36 times earnings and yields about 1.5%.

H. J. Heinz (71). As mentioned above about one half of sales and nearly two thirds of earnings are derived from abroad and consolidated into reported earnings. The addition of more new products abroad and expansion of the Netherlands and British plants should help earnings to show further growth over the next few years. While the foreign market is becoming more competitive, the company has been reducing costs to offset a few price reductions, and further economies are possible with higher volume when new plant additions are broken in. The stock, split 3 for 1 early this year, sells for around 27 times earnings and yields 1.4%.

National Biscuit (91). Increased research expenditures, introductory expenditures on new products and higher labor costs will temporarily reduce this year's earnings to about $3.85 per share, compared to last year's record high of $4.10. In August the company acquired **Cream of Wheat** to broaden its cereal line, and it has also taken on an Australian producer of cereal. Foreign sales, accounting for about 13% of total volume last year, are growing more rapidly than in the U. S. Nabisco recently began to produce Ritz crackers in England, and the Australian cereal producer has added American products to its line there. In addition Nabisco recently acquired a modern bakery operation in Puerto Rico and a controlling interest in a French producer of sweet biscuits. Capital expenditures in 1961 will approximate $20 million vs. $11.3 million in 1960, which will include a highly automated bakery plant in Chicago. At about 23 times earnings and yielding over 3% this stock is reasonably priced relative to other processed food producers. The dividend has been increased three times in the last three years. END

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